The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Contents.

Professional Notes.

THE Army Council, after prolonged consideration, has decided to reduce the accountancy staff of the Army. The reduction, we understand, will take place mainly in connection with the cost accounting as applied to the combatant units, while the costing organisation for the productive branches of the Service will be retained. It is considered by the Army Council that the productive Services derive a distinct benefit from the costing system which has been introduced, but that the military units, owing to the special nature of their services, have not so much to gain by it. The Corps of Military Accountants, whose present strength is given at 744 of all ranks, will therefore undergo a very considerable depletion, but we may be permitted to doubt whether the course decided upon will ultimately prove to be an economy. There is a feeling in some quarters that the Corps of Military Accountants is only an early victim of the urgent call for reduced military expenditure.

In Austria there is a body termed the Court of Accountancy, whose business has hitherto been the control of matters relating to the Budget and public finance, but a Bill has now been voted by the Austrian Parliament which will extend the scope of its authority. It is to be entrusted with the audit of all State undertakings, and these now include railways, forests and salt mines, which, under the reconstruction scheme of the League of Nations, are converted into separate corporate bodies. The audit in the case of these bodies is to include an inspection of the books and vouchers and any other documents which may be required, and members of the Court are entitled to be present at meetings of the board of directors. Where the State owns less than one-third of the share capital of an undertaking, the Court of Accountancy is to act in a supervisory capacity only.

A recent issue of the *Government Gazette of the Union of South Africa* contains the text of a Bill which has been introduced into the Union Parliament providing for the consolidation and amendment of the law relating to Income Tax. The tax is divided into two parts, viz, Normal Tax and Super Tax. The Normal Tax until altered is 3s. in the £ in the case of gold and diamond mining companies, 1s. 6d. in the £ in the case of life assurance companies, and 2s. 6d. in the £ in the case of all other companies. For an individual as distinct from a company, there is a maximum rate of 2s., calculated on a sliding scale. Super Tax is assessed on individuals only, and is based on the aggregate of (*a*) the taxable income for Normal Tax purposes, (*b*) dividends and debenture interest not included in (*a*), (*c*) the nominal value of bonus shares, debentures, &c., received from a company by way of capitalisation of profits, and (*d*) share of undistributed profits of any company as allocated by the Commissioner.

The last mentioned item refers to the power given to the Income Tax Commissioner who is authorised by another section to assess private companies on undistributed profits in cases where, in the opinion of the Commissioner, a fair and reasonable distribution of accumulated profits has not been made. By Clause 33 dividends received by, or accruing to, any individual not ordinarily resident or carrying on business in the Union, are to be exempt from Super Tax, provided such dividends are not paid or payable within the Union.

In an appeal in the case of *Rex* v. *Special Commissioners of Income Tax, ex parte Headmasters' Conference*, the Lord Chief Justice, in giving judgment for the Crown, said that in order to succeed in a claim for exemption as a charity under sect. 37 (1) (*b*) of the Income Tax Act, 1918, two things must be established—(1) that the body in question is formed for charitable purposes only, and (2) that the income is applicable to charitable purposes only. In the case of the Headmasters' Conference he said it was not true that either of these

requirements had been complied with. The real question however is—what is a charitable purpose?

Another crisis has arisen in relation to the West Ham Guardians. The Ministry of Health have refused to sanction a further loan of £300,000 to the Guardians unless they reduce their scale of relief, which is regarded as extravagant, and also make a closer scrutiny of the circumstances of persons receiving relief. The Ministry of Health have suggested the following methods by which economy could be achieved:—

(1) The establishment of a committee to review all cases of long standing.

(2) A reduction of 6d. per head in the payments to adults, or a reduction made elsewhere in the relief scale producing approximately equivalent economy.

(3) A reduction of the maximum payment from £3 to £2 15s.

(4) An alteration of the present scale of deductions where the incomes of members of a household, apart from relief, exceed 40s. per week.

The Board of Guardians have by a majority refused to accept these modifications and apparently there is a deadlock, as Mr. Neville Chamberlain refuses to sanction the loan.

On the Committee Stage of the Rating and Valuation Bill a concession was granted in relation to the allowance for repairs on small properties. Strong representations were made to the Government that on account of the heavy cost of repairs these properties brought no profit to the owners. Mr. Neville Chamberlain admitted that the actual cost of repairs was far greater in proportion in the case of the small properties than in the case of the larger ones, and he said that, instead of a deduction of one-fourth on gross values up to £40, he would be prepared to make an allowance equal to one-third of the gross value up to £20, and between £20 and £40 an allowance of £7 or 25 per cent., whichever was the greater.

The accounts of the Post Office Savings Banks for the year 1923 show receipts from depositors of £83,000,000 and payments of £85,000,000. The accumulated amount due to depositors at the end of the year was £273,000,000, an increase of about £5,000,000 during the twelve months. The increase in the accumulated funds arises from the fact that the receipts from the depositors were supplemented by nearly £7,000,000 derived from interest and added to the principal money of the depositors.

Sir Edward Clark, who was formerly one of the chief officials of the Board of Inland Revenue, has contributed some articles to the *Times* newspaper on the subject of Double Income Tax Relief. In his first article he deals with the assessment of individuals, and in the second with public companies, and in each case he suggests a solution which he regards as simple and practicable. In the case of the individual the solution is derived from the method of relief from double taxation to Estate Duties under sect. 20 of the Finance Act, 1924, which in effect provides that when property comes under the charge of Estate Duty in the United Kingdom, and also in a Dominion or country to which the section applies, it pays only so much as is equal to the larger of the two taxes. Sir Ernest treats the subject in some detail and gives examples showing how his scheme would operate.

We have perused with interest in the *Local Government Journal* some editorial observations with regard to the remission of the surcharge made by the District Auditor upon the Councillors of the Poplar Borough Council. The surcharge, although not sustained by the Court of Appeal, was ultimately upheld by the House of Lords. In all the circumstances the Ministry of Health doubtless found it difficult to enforce the surcharge, but the weighty judgment delivered by Lord Wrenbury in the House of Lords on the question of what constitutes reasonable wages rates will probably have its effect in the future. We are not concerned with the technical and political issues involved in this case, but we are interested to note that in the opinion of the *Local Government Journal* the accountancy audit is one that can be left to any competent firm of accountants, and that the ratepayers' right of inspection and objection is ample safeguard against abuse or illegality.

It is a far cry to the year 1903, but we believe now, as we believed then, that the soundest policy from the point of view of ratepayers and citizens is that the recommendation of the Joint Select Committee of both Houses of Parliament, as reported in that year, should be carried out, namely, that the accounts of all municipal authorities should be professionally audited either by Chartered or Incorporated Accountants.

There has recently been published a general summary for the year 1922-23 of the reports of Registered Provident Societies in Great Britain submitted to the Registry of Friendly Societies. This report reflects working class thrift throughout the country, and it is of interest to note that the total funds of such societies—including building societies, trade unions, loan societies and other similar bodies—amounted to the sum of £385,982,638 in 1923, as against £352,181,931 in 1922, and represent the joint assets of some 33½ million members.

As a practice we refrain from reference in these columns to the activities of charities beyond those of the Incorporated Accountants' Benevolent Fund, which are of special interest to our readers. We have recently received, however, a copy of the annual report of the Officers' Benevolent Department of the British Legion, to which we should like to

draw attention, particularly as a large number of Incorporated Accountants served with the Forces during the war. The report discloses particulars of comprehensive and useful activities on behalf of ex-officers, which include an appointments department, help to officers' families, education, disablement cases and loans. One of the most satisfactory features is the actual results achieved and, in regard to loans, the substantial repayments already made. The cost of administration is low, and we commend this association to the sympathetic interest of our readers, particularly those who have served with the Forces.

The National Industrial Conference Board of New York has prepared a comparison of tax burdens of the principal allied countries before and after the war with the following result. The percentage shown is the relation of the total tax to the national income in each case :—

Country.	Year 1913-14. Per cent.	Year 1923-24. Per cent.
United States ...	6.4	11.5
Great Britain ...	11.2	23.2
France	18.3	20.9
Italy	12.8	19.2
Belgium	7.8	17.0

Joint Banking Accounts.

JOINT banking accounts are not by any means uncommon, but they appear to have escaped the attention of the Legislature somewhat, and whilst their operation is based on the legal principles underlying joint tenancy and agency, there is much that is uncertain and for which one must rely upon practice. Such accounts may be opened in the names of two or more persons for special purposes, but the more usual circumstances in which joint accounts are opened are in connection with trusts, partnerships, and by husbands and wives. The account is kept in the names of all the parties concerned, and in the absence of any arrangement to the contrary, each party must attach his signature to any cheque which may be drawn. Where it is desired that cheques should be honoured upon the signature of any individual party, or group of them, the banker must be furnished with instructions to this effect, signed by all those in whose names the account is kept. Any private agreement uncommunicated to the banker will be inoperative against him. The fact that an arrangement on the lines indicated exists, will only apply to the drawing of cheques, and not to other arrangements in connection with the account; *e.g.*, if it is desired to obtain an overdraft, *all* parties must concur, otherwise the banker could only have recourse against those who had made application therefor. Except within the limits agreed upon, one joint holder is not deemed to be the agent of the others, although this assumption may be rebutted in special cases, such as partnerships where the principle of agency attaches automatically.

Generally, the parties are in the position of joint tenants, from which two important points emerge, viz (1) there is joint liability only, and (2) there is a right of survivorship in the event of the death of any party. Thus it would appear that a banker could not exercise the right of set-off against an account kept by one of the parties only, nor would liability attach to the estate of a deceased party. It is desirable, from the banker's point of view, therefore, in the case of overdrafts, to include in the agreement a clause binding the parties jointly and severally, which would have the effect of giving him a much wider protection. Where all parties combine in signing cheques, the death of any party would presumably not entitle the banker to dishonour those presented after the death of one of the drawers, as the survivors are entitled to control the balance of the account. This would not apply where the power to sign is delegated to one or more of the parties (including the deceased). Also where it is agreed that any party may individually draw cheques, the death of one would not affect the position, and the banker could honour all cheques signed by any other party. These generalities would not apply to trust accounts, which by their nature should be treated with caution by the banker.

Upon the death of a party it is advisable for the account to be closed, and a new account opened in the names of the survivors. There may possibly be disputes with the legal personal representative of the deceased as to the latter's interest in the account, but in the absence of circumstances which would call for caution on the part of the banker there does not appear to be any obligation resting upon the latter, who should leave the dispute to be settled between the representative and the other joint holders. Where one of the parties is adjudged bankrupt his interest does not cease as in the case of death, and the only safe course open for the banker is to close the account pending instructions of the trustee of the bankrupt and of the other holders jointly.

Let us now briefly consider special features attaching to cases where the joint holders are affected by relationships otherwise than as participants in the joint account.

Partners.

In the case of partners there is the characteristic of mutual agency attaching to the relationship which enables each partner, within certain limits, to bind his co-partners, and in addition the peculiar position occupied by a "firm" in law and commerce. Were a partnership a legal entity apart from its constituent members, there would be no object in referring to partnership operations in this article, since the banking account would be opened in the name of the firm (as indeed it usually is now), but in circumstances similar to those applicable to limited companies, the signatories of the cheques acting as agents only. As it is, although the firm name may be employed, the banker will require to be furnished with the names of all partners, and with instructions signed by all of them as to any delegation of powers, although any partner has implied power to

open an account in the firm name. The right of survivorship does not apply in the case of partnership accounts, since a partner's legal personal representative is entitled to claim the severable share of the deceased of the assets of the partnership of which the joint account forms a part.

Distinction must be drawn between a trading and a non-trading partnership. In the latter case there is no implied authority for one partner to borrow or to pledge the firm's credit. Consequently overdrafts should be assented to by all the partners. It should be noted that although in a non-trading partnership a partner has no implied authority to draw or accept bills of exchange, such a restriction is not deemed to extend to cheques drawn in the ordinary course of business.

Trustees.

In dealing with trustees (known by him to be acting in such capacity) the banker should exercise even a greater degree of care, if possible, than in the case of ordinary persons acting jointly, since he may incur liability should a breach of trust be committed. Trustees must always act jointly; that is, they must all concur in the acts to be performed by them, and, unless permitted by the trust deed, cannot delegate their powers. They must therefore all sign cheques drawn on the trust account, although any trustee may stop payment of a cheque already drawn. Executors, although trustees to a certain extent, occupy a position of joint and several responsibility, and whilst they cannot delegate their duties to other parties they may on most occasions act independently. Trustees have no implied power to borrow, so that if an overdraft be applied for, the banker should cover himself by obtaining security from the trustees in their personal capacity. Trust securities cannot, in the circumstances, be pledged.

Husbands and Wives.

So far as the relationship with the banker is concerned there is, *prima facie*, no general departure from the ordinary rules in the case of accounts kept in the joint names of a husband and wife. Unlike partnership and trust accounts, which relate to funds created for special purposes to be kept distinct from the private assets of the several parties interested, the account of a husband and wife is impliedly not so intended, but is frequently opened to meet special needs in the domestic *ménage*.

The main question at issue, then, is the determination of the rights of the parties or their estates in the event of death or bankruptcy of either. In some cases the wife contributes nothing to the common fund, and may be deemed to draw cheques on the account in the capacity of her husband's agent. It is immaterial for what purpose the amounts withdrawn are to be applied. Upon death or bankruptcy the balance would belong to the husband's estate (but see the rule mentioned *infra*) the usual presumption of joint tenancy in the event of death being rebutted. Where the intention is that the balance should belong to the wife it is desirable that a declaration to that effect be made. Where, however, the wife has contributed out of her separate estate, the position is not free from doubt, and it is still more necessary that the intention of the parties should be expressed when the account is opened.

Liability to Death Duties.

The property vested in trustees is not liable to assessment to death duties upon the death of any of the trustees, so that this aspect does not call for consideration.

In the case of partnerships the bank balance standing to the credit of the firm would form part of the partnership property, and upon the death of any partner duties would be assessed upon his share as ascertained by reference to the partnership agreement and the result of an account taken as at the date of death.

In other cases it must be determined whether the relationship of joint tenancy actually exists. This is generally presumed, and as joint tenancy presupposes an equality of interest, duties would be leviable upon the severable share of the deceased, notwithstanding that such share passes to the surviving joint tenants and cannot otherwise be disposed of by will. Where the whole of the fund has been provided by one of the parties who has created the joint tenancy in favour of himself and the others, the *whole* of the fund is deemed to pass at his death and would be subject to duty accordingly. In such circumstances it might be regarded as a "settled" fund, and so not subject to aggregation with the remainder of his estate, provided the latter did not exceed £1,000 in value. In addition to a possible reduction in the rate of estate duty, considerable benefit might accrue in connection with assessment to legacy or succession duties, as estates not exceeding £1,000 in value for estate duty purposes are exempt from such personal duties. Where the account has been opened in the joint names of a husband and wife (or father and child) it is presumed that an intention exists to make provision for such wife (or child), and duty would not be payable on the balance as at the date of death of the husband or father, as the case may be, but evidence may be brought to show a contrary intention. In cases where the account is opened in the name of the deceased and some other person not within the above relationship, the funds having been contributed wholly by the former, the presumption is that the survivor holds as trustee for the deceased, and duties in this case would be leviable upon the whole of the balance.

Conclusion.

It has only been possible to give a brief outline of the law and practice of this complicated subject, but it is necessary to keep clearly in mind the three aspects involved, viz:—

(1) The position of the banker in allowing dealings on the account.

(2) The rights *inter se* of the parties, particularly upon the death of one of them; and

(3) The liability to death duties.

It does not follow that the treatment is uniform in all three cases.

Directors' Signatures on Bills.

VERY serious importance attaches to the unanimous decision of a strong bench of the Court of Appeal in the case of *Elliott* v. *Bax-Ironside*, affirming a judgment by Mr. Justice Greer. It related to a bill and to directors, but the same ideas and lessons apply to other documents and other "agents." A company granted bills, and the creditor required that the bills should "be duly indorsed by your company's directors on the back." What happened was that the same two directors signed on the face as accepting, and they signed also on the back. In both places where they signed, their signatures were accompanied by references to the company and to their own position as directors, but not exactly in the same form in the two places, and in neither place were there any such words as "for and on behalf of" the company, nor "as directors only," nor "not personally or individually." In the result they have been held personally liable as indorsers.

We have no desire to refer to or discuss any aspect of the particular case, but a perusal of the report leads to some general reflections.

It is surprising that a creditor, meaning to stipulate for the personal liability of Mr. A and Mr. B, should be content to express his condition in the form of a request for the signatures of "your company's directors on the back." He would be much nearer the mark if he called for the indorsations of "Mr. A and Mr. B as individuals."

It is more surprising that the creditor should be content to take an indorsation in the following form, or anything like it:—

"The X Company, Limited,
"A B
"C D } Directors."

How dangerous this is, or might be, clearly appears from the opinion of Lord Justice Sargant, who said:

"Looking at that indorsement alone, it seems to me impossible to say whether it is an indorsement as on behalf of the company or an indorsement as on behalf of the individuals. I go further and I say this, that if that indorsement stood alone in those terms, with nothing else to lead me to the contrary conclusion, I should be rather inclined to think that it was an indorsement as on behalf of the company and not an indorsement as on behalf of the individuals."

What swayed his Lordship and the Court was the pregnant consideration that if that was all the indorsement meant it was meaningless, for the company was already liable by the acceptance.

It is equally surprising to find how vaguely, and wrongly, educated men use language with reference to serious business. Thus one of the directors, who was disputing that his indorsement made him personally liable, gave evidence and said:

"I had no intention, when I signed the bill, of making myself personally liable on it. I signed the bill on the back with the idea of guaranteeing that the company would pay it."

"Guaranteeing" is evidently there used in the sense of "binding the company to pay" or "making the company liable to pay." In the same way, referring to other parts of the evidence, Lord Justice Bankes said:

"It does seem to me plain that, although they adopted the expression 'Oh, we were not to be held personally liable'—*which is very often adopted in the sense that ultimately, if anybody was called upon to pay, the money would not come out of their pockets, because somebody else would provide it*—yet they quite clearly recognised" . . . .

In the peculiar and self-misleading sense thus judicially referred to, "not personally liable" really means only "not personally liable without relief" or "personally liable, but with relief." It really rests on a mental or verbal confusion of two entirely different relations—the relation of the signatories to the company and their relation to the creditor.

Finally, we suggest that, in order to make assurance doubly sure and to take a bond of absolutely unambiguous language, the proper courses are:—

(1) From the standpoint of the creditor, if he relies on individual obligations, to require the indorsements of A B and C D without any reference whatever to the company, and to see that he gets them. In the case of a deed there ought to be added the words "personally and as individuals."

(2) From the standpoint of the directors, if they mean to exclude individual obligations, to see that above their signatures there is written "only as directors of, and for and on behalf of, the X Company, Limited, and not personally or individually."

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

FINLAYSON, JAMES JOHN, 17, Clare Hill, Huddersfield, Practising Accountant.

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WILLIAMS, FRED, Deputy County Treasurer, West Sussex County Council, Chichester.

WOODLEY, ERNEST, Clerk to R. Menzies Blaikie, 27, High Street, High Wycombe.

District Society of Incorporated Accountants.

NOTTS, LEICESTER, DERBY AND LINCOLN.

The sixteenth annual general meeting of this Society was held at the Reform Club, Nottingham, on Friday, August 14th. The revenue account and balance-sheet as at April 30th, 1925, were submitted. The President, Mr. Alderman Edward Harlow, J.P., F.S.A.A., was unanimously re-elected for the coming session. The Hon. Secretary, Mr. Fred A. Prior, F.S.A.A., and Assistant Hon. Secretaries, Mr. J. T. Singleton, A.S.A.A., and Mr. H. B. Platts, were also unanimously elected. Many matters affecting the welfare and progress of the Society were discussed, and the Committee look forward to a very successful session in 1925-26.

INCOME TAX.

Weekly Wage Earners.

The following is an extract from the Regulations issued under date July 16th by the Commissioners of Inland Revenue:—

1.—The two half-years for which half-yearly assessments are to be made shall end respectively on the following dates in each year:—

(1) October 5th. (2) April 5th.

2.—Income tax in the case of wage earners shall be assessed and charged by the Inspector of Taxes, who for this purpose may, in addition to the powers of an Inspector of Taxes, exercise all the powers of an assessor and of any General Commissioners, except the power of hearing and determining an appeal.

3.—The Inspector of Taxes shall serve on every person assessed by whom any tax is payable a notice of the assessment made upon him, addressed to him either at his place of employment or at his usual or last known place of abode.

4.—An allowance not exceeding one-half of the annual amount of any allowance, deduction or relief which may be lawfully granted under sect. 32 of the Income Tax Act, 1918, as amended by sect. 26 of the Finance Act, 1920,* or under any of the sects. 17 to 23 of the Finance Act, 1920, as amended by sects. 21 and 22 of the Finance Act, 1924,† may be deducted from each half-yearly assessment on a wage earner, and where full effect has not been given to the amount so allowable for the first half-year, the residue or any part of the residue of the allowance may be deducted from any assessment which is made for the second half of the same year.

5.—Where a person assessed in a half-yearly assessment proves to the satisfaction of the Commissioners of Inland Revenue that any allowance, deduction or relief to which he is entitled under the provisions referred to in Regulation No. 4 has not been wholly allowed in the half-yearly assessments or otherwise, repayment shall be made by the Commissioners of the amount of tax overpaid.

6.—Every employer, when required by notice from the Inspector of Taxes, shall, within 21 days from the date of such notice, deliver to the Inspector of Taxes a return of the names and places of residence, and the wages for the half-year, of all wage earners employed by him whose wages for the half-year to which such notice relates have amounted to £80 or upwards. The employer shall also make a return in like manner of the wages of any wage earner for the half-year whenever particulars in respect of that person are demanded by the Inspector of Taxes.

7.—Every wage earner when required by notice from an Inspector of Taxes shall, within 21 days from the date of such notice, deliver to the Inspector a return of his wages for the year of assessment, or for either half-year thereof, as the notice may require.

8.—A person aggrieved by any half-yearly assessment made upon him must give notice thereof to the Inspector of Taxes, stating the grounds of his objection, within 21 days after the service of the notice of such assessment.

9.—On receipt of any such notice of objection the Inspector of Taxes may, on proof to his satisfaction, agree with the wage earner as to the correct amount to be assessed, and may thereupon amend the assessment. Notice of the amended assessment shall then be served by the Inspector of Taxes upon the wage earner.

10.—Where, on receipt of any notice of objection, the Inspector of Taxes is unable to agree with the wage earner as to the correct amount to be assessed, the Inspector shall, on application by the wage earner, give notice to the clerk to the General Commissioners of the division in which the wage earner is assessed, or, where the wage earner elects to appeal to the Special Commissioners, to the clerk to the Special Commissioners, and that notice shall operate as a notice of appeal by the wage earner. The General Commissioners or Special Commissioners shall hear and determine every such appeal.

* 10-1 Geo. V, c. 18. † 14-5 Geo. V, c. 21.

11.—Notice of the day and time fixed for hearing any appeal shall be given by the clerk to the Commissioners to the Inspector of Taxes and to the appellant respectively, fourteen days at least before the day fixed for the hearing of the appeal. Any such notice may be served by post.

12.—Where no objection to the assessment is made within the prescribed period the tax charged under any half-yearly assessment for the half-year ending October 5th shall be payable on January 1st in the year of assessment, or 21 days after the service of the notice of assessment, whichever is later; and the tax charged under any half-yearly assessment for the half-year ending April 5th shall be payable on July 1st following the end of the year of assessment, or 21 days after the date of the service of the notice of assessment, whichever is later.

13.—Where notice of objection to the assessment is given within the prescribed period and the assessment is amended by the Inspector of Taxes, the tax shall be payable on January 1st or July 1st, respectively, for any assessment for the half-year ending on the previous October 5th or April 5th, respectively, or fourteen days after the issue of a notice by the Inspector of the amended assessment, whichever is later.

14.—The tax due on any assessment as determined by the General Commissioners or the Special Commissioners on appeal shall be payable on January 1st or July 1st, respectively, for any assessment for the half-year ending on the previous October 5th or April 5th, respectively, or fourteen days after the date of their determination of the appeal, whichever is later.

15.—Whenever any person has removed to or resides or happens to be in any parish other than the parish in which a charge to tax has been made upon him, and the said tax or any part thereof is in arrear and unpaid, the Inspector of Taxes may authorise any collector appointed by the Commissioners of Inland Revenue for the first mentioned parish to demand payment thereof, and on non-payment to recover the same in the manner prescribed by the Income Tax Acts.

Where there is no collector so appointed, the Inspector may issue a certificate setting out the facts as aforesaid to the General or other Commissioners acting for the division comprising the first mentioned parish, who shall cause the said amount of tax to be raised and levied under the provisions of the Income Tax Acts and to be paid over to the account of the collector or collectors for the parish in which the tax is charged.

21.—If any sum charged upon a person in any duplicate of assessment is unpaid when the same becomes due the collector in England or Northern Ireland shall have the like power of distress as may be exercised by a collector in the case of any income tax charged by the General Commissioners. In Scotland any such sum which is unpaid when the same becomes due may be recovered by the collector of half-yearly assessments in the manner prescribed by the Income Tax Acts in relation to recovery in Scotland in the case of other assessments to income tax.

22.—Charge duplicates showing the full amount of the sums given in charge to each collector throughout the whole year for each parish, without any discharge, diminution, or defalcation, shall be made out for every year and certified to the Commissioners of Inland Revenue by the Inspector of Taxes in whose district such parish is situated.

23.—A collector shall, whenever required by the Commissioners of Inland Revenue, deliver to the Inspector of Taxes schedules prepared in the prescribed form, together with affidavits to be made on his oath or affirmation and signed by him, setting forth the full name of every person in his collection from whom he has not received payment of the tax given him in charge to collect, and the respective sums then in arrear or uncollected from each such person.

25.—Every collector appointed by the Commissioners of Inland Revenue shall deliver schedules of deficiencies as prescribed by sect. 175 of the Income Tax Act, 1918, to such Commissioners, who shall exercise all the powers of General Commissioners in relation thereto, and may authorise any Inspector of Taxes to exercise on their behalf such powers as relate to the verification of the schedules by oath or affirmation of the collector and to the examination of a collector on oath or affirmation. The Commissioners of Inland Revenue shall in such cases cause to be prepared schedules of discharge and defaulters. Any such schedules of defaulters shall have the same effect as if made in pursuance of the Income Tax Act, 1918.

26.—Any notice to be given by an Inspector of Taxes to an employer or wage earner or collector of taxes, as the case may be, may be served by post.

28.—Summary proceedings for the recovery of tax as a civil debt shall be commenced in the name of the collector.

29.—"Wage earner" means a weekly wage earner employed by way of manual labour chargeable to income tax in respect of his wages in each half of the year instead of the whole year.

IMPERIAL ECONOMIC COMMITTEE'S REPORT.

The following is a summary of the recommendations and a copy of the financial portion of the report of the Committee which was appointed to consider the possibility of improving the methods of preparing for market and marketing within the United Kingdom the food products of the oversea parts of the Empire with a view to increasing the consumption of such products in the United Kingdom in preference to imports from foreign countries, and to promote the interests both of producers and consumers.

Summary of Recommendations.

We summarise the conclusions and recommendations of this our first report as follows:—

(1) That the time is ripe for a national effort to stimulate the consumption of Empire produce in the United Kingdom.

(2) That so far as the State is concerned this scheme should rest on (*a*) legal requirements with a view to the identification of Empire goods, and (*b*) financial assistance for education and publicity, and that we regard these two factors as essential the one to the other.

(3) That the law of the United Kingdom, if enforced, already supplies the greater part of the necessary sanctions.

(4) That the Merchandise Marks (Imported Agricultural Produce) Bill at present before Parliament at Westminster forms a very convenient basis for the further legislation which it seems to us would be necessary.

(5) That the enforcement of the law in respect of marking at the time of importation and in respect of labelling at the time of retail sale should rest with one of the existing departments of State.

(6) That a Commission, which we speak of provisionally as the Executive Commission, should be formed on the model of the existing Development and Forestry Commissions for the purpose of supervising the expenditure of the annual grant from the British Parliament.

(7) That this Commission should be charged with the duty of conducting the movement for trade in Empire produce.

(8) That we regard a scheme for co-ordinated research into the production and preservation of foodstuffs as of prime importance.

(9) That the Executive Commission should start by allocating about 65 per cent. of the annual grant for the promotion of trade in Empire produce and about 15 per cent. for research.

(10) That the remaining 20 per cent. should be reserved for certain other schemes of which we have mentioned two, namely, the promotion of fruit growing in the tropical portions of the Empire and the carriage of pedigree stock from the United Kingdom to the overseas parts of the Empire.

Finance.

Recommendations to British Government.

The preceding sections of this report have been addressed to all the Governments of the Empire. We think it proper to address this section to the British Government alone, and to recapitulate in it the advice in regard to financial expenditure which we have been asked to tender to that Government.

ANNUAL GRANT OF BRITISH GOVERNMENT.

We have not been instructed to treat our task under this head as merely one of compensating the industries which would have benefited under the abandoned preferences, although there is undoubtedly a feeling among some of those engaged in the industries to which the lapsed preference proposals related that some direct assistance might properly be given to them. A million a year would, however, break up into relatively trivial sums if distributed among a number of industries in different parts of the Empire, and we feel, moreover, that any scheme of direct subsidy to the producers would involve considerable difficulties both on constitutional and on practical grounds. We believe that more permanent benefit to those industries, and certainly to Empire trade at large, would accrue from the utilisation of this sum in a more general manner. Our aim is to stimulate the demand for Empire products, and it is with this object in view that we have contemplated the allocation of large portions of money to publicity and research, where the return to the individual producer is less easy to measure but none the less valuable in the long run. But we recognise that our general schemes will take a little time to develop, and we therefore commend the industries which were disappointed of a preference under the Customs tariff of the United Kingdom to the early attention of the Executive Commission.

PROVISIONAL NATURE OF ALLOCATION OF GRANT.

From a financial point of view we think that the Executive Commission which we are proposing will form a convenient and, indeed, a necessary instrument for at least two reasons. In the first place, experience alone will show in what directions the annual grant may most profitably be spent, and this experience can only be gained by practical work in the execution of carefully prepared schemes. In the second place, we believe that it is in accordance with precedent that, out of the funds voted to a Commission such as we propose, any surplus which may remain unexpended at the end of the financial year should be carried forward and should not fall back into the Treasury. Our investigations are not yet complete, and we may have to suggest further schemes to which a portion of the grant might in the future be devoted. The initial cost of some of the schemes may be greater than the cost of continuing them; or, on the other hand, there may be schemes which will gradually expand from small beginnings. For these reasons among others we think that the whole sum should be voted to the Executive Commission, which should be charged with the duty of carrying out those of our proposals which apply to the United Kingdom, but with power to vary within elastic limits the initial allocation which we suggest. We think it very important that the Commission should be able to commit itself to schemes which would develop gradually over a short term of years.

ALLOCATION OF ANNUAL GRANT.

Subject to what we have said in the preceding paragraph. we think that the annual grant should be assigned in the first instance to the following purposes:—

(1) To publicity and education for the promotion of Empire buying.

(2) To research, chiefly on a commercial scale.

(3) To other schemes such as—

(*a*) The development of trade in fruit produced in the tropical portions of the Empire.

(*b*) The carriage of pedigree stock from the United Kingdom to the overseas parts of the Empire.

(*c*) Any other scheme within our terms of reference which we may subsequently recommend.

In setting out our proposals in the above order we have had in view the fact that the promotion of Empire buying in the United Kingdom should react on all parts of the overseas Empire, and for that reason we propose to assign to this purpose the greater part of the grant. In regard to research, we think that it would probably be difficult to spend wisely at short notice a very large sum. It may well be that as the movement for Empire buying becomes organised and efficient it will cost less, and that as research develops it will make larger demands. We have thought it desirable to mark the interest of all the self-governing portions of the Empire and of India in our great dependent tropical estate by including a scheme on which we hope to report later. We also desire, as explained at greater length in our report on meat, to give support to the improvement of the livestock of the Empire by contributing to the cost of the carriage of pedigree animals. While this should be of great value to the Dominion producer it would also be of advantage to the British breeder. We propose, for the guidance of the Executive Commission, that in the first instance about 65 per cent. of the annual grant should be devoted to the promotion of Empire buying in the United Kingdom; that about 15 per cent. should go to research; and that the remaining 20 per cent. should be reserved for the other schemes. The costs of the Commission itself would, we anticipate, be very small, and would, of course, be a charge on these schemes.

INTEREST OF DIFFERENT PARTS OF THE EMPIRE.

While our two major schemes should benefit all parts of the Empire we recognise that our other schemes are of more local application. The importation of meat and fruit into the United Kingdom is from certain parts of the Empire only. We think it important, therefore, to say that as our investigations proceed to other foodstuffs it is likely that we shall have further schemes to propose. As a body of delegates from all parts of the Empire we have deliberately worked with the Empire as a whole in our minds; but while we have excluded all spirit of bargaining we are anxious that as far as may be no part of the Empire shall feel that it has been omitted from consideration. We have still to review many industries, such as the tea trade and the fish trade, in which portions of the Empire not prominently concerned in the export of meat and fruit are interested.

Changes and Removals.

Messrs. Allnutt, Bradfield & Co., Incorporated Accountants, London, have taken into partnership Mr. A. E. Mullis, Incorporated Accountant. The name of the firm will remain unchanged.

The partnership lately carried on by Messrs. Beecroft and Stephenson, Incorporated Accountants, at 8, East Parade, Leeds, has been dissolved. Mr. Beecroft will continue to practise at the old address, and Mr. Stephenson at 69, Albion Street, Leeds.

Mr. Richard A. Corner, Incorporated Accountant, has commenced public practice under the style of Rd. Corner and Jones, at Wellington Buildings, Strand, Water Street, Liverpool.

Mr. W. Colin Grant-Smith, LL.B., A.C.A., Incorporated Accountant, has taken into partnership Mr. Cyril Brassington, A.C.A. The practice will be continued at Gresham Chambers, Lichfield Street, Wolverhampton, under the style of Grant-Smith & Brassington.

Messrs. W. H. Payne & Co., Incorporated Accountants, London, have taken into partnership Mr. W. G. Payne, Incorporated and Chartered Accountant. The style of the firm will remain unchanged.

Mr. P. R. Shackleton, Incorporated Accountant, announces that he has removed to 3, Burlington Chambers, North Street, Keighley.

Specialisation in Accountancy.

A LECTURE delivered before the Incorporated Accountants' Students' Society of Glasgow by

MR. J. STEWART SEGGIE, C.A., F.S.A.A.

Mr. SEGGIE said: I have chosen as my subject "Specialisation in Accountancy," which enables me to refer briefly to the different functions of an accountant, thereby showing that an accountant's work is not mere checking as some would have it. There are too many people prone to take this narrow view of the scope of an accountant's duties. There are too many who do not appreciate the value of a trained mind being brought to bear on the simplest questions in accounting, and too many there are who are apt to belittle the work of an accountant. In fact, the term accountant is so loosely used that one does not wonder at the wrong impressions existing.

Time was when the accountant's profession was looked upon as a semi-legal profession. In Scotland it was no uncommon thing to find a solicitor at times designated as an accountant, and somehow or other many accountants of to-day consider themselves a part of the law. Whether the law recognises them as such, and whether it is good for the accountants to pride themselves on the close connection are matters I am not going to enlarge upon.

I somehow feel that it would be well for the accountant to drop this presumed close connection and consider himself more in the mercantile sense, as nowadays he really is.

I am the most unsuitable member of your Society whom you could have chosen to deliver a lecture for such purposes as the meeting is held for. I am a member of the oldest chartered body of accountants, as well as a member of the Incorporated Society, and, fortunately or unfortunately, a Government servant. I cannot advocate the claims of the Society as against the chartered societies, nor yet can I enlarge upon the great advantages in public practice of being a member of one or other of the recognised bodies.

With my several years experience of Government employment I am not going, however, to admit that I have forgotten what it is to be in practice. I have, since giving up private practice, learnt how invaluable are the services of qualified accountants in the Civil Service. I am not here referring to myself, but to the many who were employed during the great war period in Government departments. There is no gainsaying the fact that in the Civil Service of the future qualified accountants will play an important part.

Passing, however, from the subject of the corporate bodies to the individuals themselves, I wish to deal to-night with "Specialisation in Accountancy." What constitutes the scope of an accountant's practice? The main divisions are:—

(1) Auditing.
(2) Preparation of Accounts.
(3) Bankruptcy.
(4) Investigations, including devising of System of Costs.
(5) Trust and Executry Accounting.
(6) Income Tax Returns.
(7) Secretarial.
(8) Financial Experts.
(9) Remits from Court and Arbitrations.

The accountant in practice whose business includes all the above is a happy individual. Truly it has been said that a "little knowledge is dangerous," but this is hardly applicable to accounting. If the fundamental principles are grasped their application comes much as a matter of course to the trained mind. There are large firms with many partners whose business includes all the above and other divisions, but then when the business comes along it is dealt with by the partner specialised in the division concerned. An accountant in practice on his own account has too much modesty to assert that he is an expert in all the above divisions. He takes the business when it comes his way, and invariably benefits from the experience gained. The remuneration may not compensate him for the time spent upon the work, but then he gains in experience. "Experience teaches fools," and from the "fool of theory" he is converted to the "man of experience."

No one can object to the accountant in practice on his own account taking up such a line, but experience seems to be teaching the younger members of the profession that "specialisation" is becoming more and more common in all rofessions.

Let us examine the extent to which one can specialise in the above divisions.

(1) AUDITING.

As was stated at the opening lecture, given by Professor T. P. Laird, at the Edinburgh University to the class on accounting and business methods, "auditing is the mainstay of the profession." Truly, then, auditing is a subject in which every accountant must specialise. No business is looked upon as secure without a certain income from audit fees. The practising accountant endeavours, as a foundation for his business, to secure the audit of limited companies' accounts and books. By diligent and painstaking work he commands the confidence and respect of the shareholders and retains the post of auditor year in, year out. There is invariably no movement to oust the conscientious auditor until disagreement arises over the fee, or on some serious question of principle.

The same applies to the auditors of local authorities' accounts. They invariably retain the auditorships until death or resignation.

Auditing comprising as it does a great part of the accountant's business, it is hardly necessary to inform you that it is a subject which every accountant should be well acquainted with. Auditing, as you are no doubt all aware, is not merely checking vouchers and postings. It necessitates a knowledge of the principles underlying the business and a particular knowledge of the methods of administration in force. Each business or class of business must be taken by itself. What the accountant who would specialise in auditing wants to do is to make himself thoroughly acquainted with all the details of the business—not merely the finance, but the inner workings of the concern. Time does not permit me to elaborate on this point, but too often auditing is looked upon as a "mere checking." The checking is only a small part of an auditor's duty compared with the matters of principle involved and the weight attached to his certificate. The impression that auditing is mere checking is not an impression of recent date. In Lecky's "England in the Eighteenth Century" reference is made to the audit of the national accounts. "Auditors of imprest each had in some years of the war received as much as £16,000, but their office had become a sinecure; its duties were wholly performed by clerks, who confined themselves to ascertaining that the accounts were rightly added, but without any attempt at a real investigation. Every kind of fraud and collusion could grow up under such a system, and there appears to have been also little or no check upon the fees, perquisites and gratuities given to persons in official situations." "*Without any attempt at a real investigation*" are significant words showing that an auditor is not a mere checker.

In passing from the main branch of an accountant's business it is interesting to note that no mention of auditing as a part of an accountant's practice was made in the petitions for the Edinburgh and Glasgow Chartered Societies, and there can be no doubt that the Companies Act of 1862 did more than anything else to further auditing as a branch of the profession.

(2) PREPARATION OF ACCOUNTS.

Under this heading the accountant usually prepares the trading account, the profit and loss account and balance-sheets of either individual firms or companies. Although it is not perhaps recognised, one may become an expert or specialist even in the setting out of accounts. There are text-books by the hundred on the market dealing with the subject of book-keeping, and it is too often the case that students carry into their professional life the methods of setting out accounts which they have been taught during their student days. A very common example of this is the setting out of a trading account where one finds the trading account beginning on the debit side with the stock-in-trade at the beginning of the period, the purchases made during the period, and on the credit side the sales and stock in hand at the end, whereas most merchants would appreciate, as is done in the majority of up-to-date statements, the showing on the

debit side of the cost of materials used or consumed during the period, *i.e.* :—

Stock on hand at the beginning of period ..	£
Purchases	
Less stock on hand at end of period	
Cost of goods used	£

This may appear to be a very minor point, but it is just one of those points where by experience accountants may become experts in the setting forth of the financial results.

Again, the direct expenditure on manufacturing in a manufacturing business should be shown in the trading account, and the indirect—or what might be termed financial—charges shown in the profit and loss. I am aware that there is great diversity of opinion as to what constitutes direct expenses in manufacturing as distinguished from indirect expenses, but an endeavour should be made in setting out ordinary financial accounts to arrive at the profit on trading or manufacture as distinguished from the net profit. Much could be said on this subject of setting forth trading accounts and profit and loss accounts showing the percentage which the various items bear either to the sales or other factor, but time does not permit of my pursuing this interesting subject except to refer briefly to one point on percentages. Most accountants express the gross profit on the sales, which is very interesting to the trader, but unless the accountant points out the difference between this and the percentage which must be added to cost before the percentage on sales can be obtained it is misleading to small traders—*e.g.*, 33⅓ per cent. must be added to cost before 25 per cent. can be obtained on the sales. This is just another minor point, but one worthy of keeping in view in preparing percentage statements.

Turning now to the setting out of the balance-sheet of a concern, it is not always recognised that there are distinctive methods of setting out the items in the balance-sheet. For example, one should be able on analysing a balance-sheet to trace without difficulty what might be termed the floating capital of the concern as distinct from the fixed capital. If the assets are arranged in order of realisation and the liabilities in order of priority of payment, one can get at a glance what the floating capital amounts to.

Before leaving the question, a word might be said of the advantages of comparative figures being incorporated with the current accounts, which saves the owner the necessity of having two or three statements of accounts before him when perusing the one for the current financial year. Every accountant should be expert in these matters, so as to bring out in the financial accounts the results most useful to the proprietor of the business, and not merely bring out, as is often the case, the net profit without considering the items leading up to it.

Under this head one could elaborate on the skill required in devising the books and forms leading up to the preparation of the accounts. I will, however, content myself by referring to a document I once came across relating to a certain order of friendly society having various lodges. It was the custom to appoint a few members to inspect the books of the lodges, and each lodge was supplied with a copy of the "Book Examiners'" report. The following was considered so important that it was printed and circulated among the various lodges.

"*General Remarks of Book Examiners.*

"Reference has been made in the detailed reports of the books of the lodges to the variety of method shown in the respective cash books. With a view to adopting a uniform system throughout, the following remarks apply to the various treasurers:—

"All cash books should be headed 'Dr.' and 'Cr.' and show the period under review. The words 'Income' and 'Expenditure' can be added if found desirable. The practice of bringing balances forward in 'red ink' is commendable. On the income side the word 'To' should be inserted at the top of the page, and on the expenditure side the word 'By.' No blank lines must be left in a cash book, and when the entries terminate for a given period only, partly down a page, the remainder of the page should be ruled off with an angular line. All entries must follow one another, and it is advisable, to facilitate checking and reference, that the entries for any given period on one side of the cash book should have the corresponding debit or credit on the opposite page.

"The examiners have to report that their review of the books has revealed nothing in the shape of errors to call particular attention to. Throughout the various sets the entries have been recorded with accuracy and neatness, and secretaries and treasurers are to be congratulated upon their work in this direction."

The report is a glaring example of how an accountant's experience is not sought for when it should, as is often the case nowadays, when nearly everyone considers himself qualified to audit and frame accounts.

(3) BANKRUPTCY.

From the accountant's point of view it is not a nice thing to be said of him that he is a specialist in bankruptcy, because the outside public, and especially the creditors, do not look with great favour upon bankruptcies, nor on the one who is looking for them. When you analyse the subject, however, it will be found that the accountant whose business is to wind up the affairs of others becomes an expert in these matters, and in the long run the creditors reap the benefit of such expert work. Long experience in bankruptcy matters teaches one the various directions to turn to in order to realise to the best advantage the estate of the bankrupt. The accountant taking up this line of business is as much a necessity to the community as the ordinary practising accountant. Although a stigma attaches in a sense to the business, it it found that the firms or individuals dealing in this class of business pay little attention to what is said so long as they feel confident they are acting in the best interests of the creditors. I am not by any means advocating that you should make bankruptcy a special line of business and induce traders to give you their business in this line because the fewer calls upon the services of such accountants the better for the trading community.

In the "History of Accounting and Accountants" we read: "It is to be feared also that a considerable number, particularly of smaller bankrupt estates, find their way into the hands of self-styled accountants who are very ill qualified for the duties they profess to undertake, and whose main object it is too often not to pay as large as possible a dividend to the creditors, but to secure on one pretext or another as large a share of the recoveries as possible for themselves.

"The passing of the English Bankruptcy Act of 1869, under which official assignees were abolished and trustees appointed to realise and distribute bankrupt estates, appears to have had the effect of largely increasing the numbers of this unqualified and greedy class of practitioners, though Mr. Justice Quain went a little too far when he remarked from the Bench in 1875 that 'the whole affairs in bankruptcy had been handed over to an ignorant set of men called accountants, which was one of the greatest abuses ever introduced into law.'"

(4) INVESTIGATIONS, INCLUDING DEVISING OF SYSTEMS OF COSTS.

Under investigations accountants' services are requisitioned in many directions, and it is not my purpose to elaborate on the different classes of investigation which an accountant may become specialised in. He may, for example, be engaged chiefly on the investigation of books and accounts, to arrive at the profits with the view to floating the concerns into limited companies. His reports attracting other company promoters may bring to him sufficient business in this line to keep him fully employed the whole year round. What I want chiefly to deal with under this head is the subject of cost accounting. When one has studied the elements of costing, has become acquainted with the principles underlying the systems in force, and sees those principles applied to a special class of business with the various intricacies and interesting problems which arise, he almost feels inclined to say that he is ashamed of being just an ordinary accountant. The profession has not been alive to the fact that there is a wide field for accountants in this direction. The subject of cost accounts in this country has only recently come to the fore, and it is only recently that candidates have been asked costing questions at the examinations. There is not a great deal of literature on the subject to guide the student who would make himself efficient on this subject. The reason for this is apparent. To devise a system of cost accounts for any concern necessitates an inner and practical knowledge of the

business under consideration. A treatise on cost accounts can only deal with principles, and even then it is a somewhat difficult matter to show the practical application of the principles.

In the past, cost accounts have been mainly devised by the practical man without the assistance of the accountant. The accountant concerns himself with the financial accounts, and in many cases the connection between the two is not even looked into. With the increasing needs of every class of industrial concern it is growing more apparent every day that the costing accounts should be such as can be relied upon. The profession in this country have been very slow to take up the subject of costing as part of their business, and in this connection we have much to learn from our cousins across the water, where during the last 40 years costing has progressed and become a fine art. There are in America accountants whose business consists of nothing else but devising and revising the systems of costs. To the young members of the profession there is thus open a field where they may become specialists to their advantage and to the advantage of those employing them. There are many accountants of to-day who would gladly take up this subject if they had their business career to begin again. There is one great difficulty in the young accountant getting experience in costing systems. Industrial concerns are naturally jealous of each other, and do not wish to exhibit to everyone their system of costs, but to the diligent student who sets himself out to take up this subject these obstacles will no doubt disappear. His course of study should be first of all to grasp the principles underlying the whole system, to discuss the subject at every possible opportunity with practical men conversant with it, and if possible to get the opportunity of examining a system here and there of different classes of concerns. The accountants of the present day should also make a point of inaugurating systems of costing in every concern they have to deal with where costs would be of advantage to the proprietor. Education of the manufacturers in this direction is urgently required. Experience gained during the war years shows that a very large percentage of the manufacturers of this country had no cost accounts to speak of, and the many young accountants who were engaged on this work during the war have got an experience which should be beneficial to them in this direction, and which they should further by impressing upon their clients the absolute necessity of having some good system of costing in force. I am tempted to elaborate more on the subject of costs and show that accountants should devise systems to work in with the financial books. That, however, is a subject by itself, and I have merely touched upon it to-night to show what a field there is for specialisation in this work. The real index to the profits of a manufacturer is to be found in the cost accounts. The profit and loss account is a most uninteresting account compared with the different accounts for each job.

Accountants devising systems of costing should bear in mind to make the introduction of them a gradual process. Too much detail should not be attempted at first, but as time proceeds, and the manufacturer gets interested, elaboration with greater detail can be introduced. In every case some reconciliation of the financial results should be made with the results as brought out in the cost accounts. By this means revision of percentages and other details will follow.

(5) Trust and Executry Accounting.

The accountant may be called in either to audit the accounts of trustees or he may be requested to prepare the actual accounts. In the winding up of deceaseds' estates, where this is done in large law offices, there are invariably clerks expert in the preparation of accounts of charge and discharge, and the accounts, as sent to the auditor, are merely for purposes of check. With the conflicting opinions, however, on questions of apportionment between capital and revenue, the matter is not a simple one. The auditor has to make himself fully acquainted with the terms of the testamentary writings and the minutes of the trustees. Many interesting problems arise out of trust accounting. The subject of the apportionment of dividends and interests on stocks bought and sold is an example of one of those interesting problems. The law of England differs in many respects from that of Scotland. Invariably, however, where the accounts are prepared by the law agents and an expert has been engaged upon them, the accountant will find little difficulty in clearing up differences of opinion. In many cases it is the custom for the law agents to send the current account with the vouchers to the auditor, and in addition to auditing the transactions there is remitted to the accountant the duty of preparing the accounts in proper form. Schemes of division may be complicated by the terms of the trust disposition and settlement, and the accountant must put himself into the position of the testator and secure whatever evidence he can get of the testator's intention. This part of accounting is really a special branch and there are specialists in this class of business. Invariably, however, there is no clause in the Trust Disposition and Settlement laying down that an audit of the law agent's transactions is to take place and the bulk of this business comes voluntarily from the law agents or on the instructions of the trustees for their own safety. There is no legislation providing that all trust accounts have to be audited, and consequently it is a class of business which is very limited. Nevertheless the young accountant should make himself expert in the questions of apportionment which have been decided in the Courts. There are not many cases, but what there are, both in the English and Scottish Courts, are of a very interesting nature.

A very useful debate could be arranged on whether the charge and discharge form of account adopted in Scotland for trust accounts is preferable to the style of setting them out in England by means of ledger accounts.

(6) Income Tax Returns.

During recent years, with the coming into force of the various Finance Acts, accountants are becoming more than ever employed by traders. The Inland Revenue Authorities are now insisting on profit and loss accounts and balance-sheets where previously they were content with the return of income as made by the individual. The accountant's services are more than ever being recognised by the trading community. Systems of book-keeping which arrived at the profit without showing the source of income and expenditure are now gradually disappearing. The services of accountants are increasingly being requisitioned by the trading community when they are in conflict with the Inland Revenue Authorities. The accountant should make it his business to become expert in all matters pertaining to income tax in order to advise his clients and satisfy the Inland Revenue Authorities on points of detail. The Excess Profits Duty has entailed a great deal of accounting during these past few years, and although it has now been discontinued it nevertheless shows that the accountant should be an expert in all taxation matters in order to look after the interests of his client.

It invariably happens that once a trader has been in conflict with the Inland Revenue and has employed an accountant to clear the matter up, he retains the services of the accountant on his accounts every year. An opportunity is thus afforded to the accountant to inaugurate a proper system. Accounts certified by qualified accountants are invariably accepted without question.

(7) Secretarial.

Many accountants find it a lucrative business to act in the capacity of secretary to limited companies. The actual accounting in the form of returns does not require any great skill, but the expert secretary is the one who can organise the affairs of the company to the best advantage. The secretarial duties may combine practically the manager's, and where this is the case the secretary must look upon the business of the limited company as his own and thus secure to the shareholders the maximum amount of profit. Organising ability is necessary to a successful secretary. A knowledge of company law and company precedents must also be acquired as a qualification for acting as such.

(8) Financial Experts.

There are accountants whose chief business is the advising of clients in their financial transactions. They are not stockbrokers, but by closely following the markets they are able to lay at the disposal of their clients such information as will enable them to invest to the best advantage. There are not many accountants of this class. They secure reports from various sources which are not otherwise available to the general public, and with the possession of these reports they have a source of information not at the disposal of everyone.

This is a very special class of business and one where there is not room for many in the field.

The last division of an accountant's business I have stated as Remits from the Court and Arbitrations. I am not going to elaborate on this. The remits from the Court are invariably on complicated questions of account and reckoning, and necessitate a good knowledge of the law on the particular points. Accountants are also appointed by the Court as judicial factors, curators, &c.

Having discussed the various main divisions of an accountant's business, the general question before us to-night is whether it would be beneficial to the members and to the community to make themselves specialists in any one of the classes of business dealt with above. My own personal opinion is that division of labour, even in the accounting profession, is of great advantage, not only to the individual accountant, but to those requiring his services. I need not here elaborate upon the advantages of division of labour when applied to expert matters such as is dealt with above. There can be no gainsaying the fact that the expert accountant in bankruptcy, in costing, in trust accounting, or in company work gains by concentrating his attention on that particular subject a fund of precedent which to the ordinary practitioner is not available. He thereby becomes, in the real sense of the word, an expert in his business and may deal with a piece of business far more expeditiously than the average accountant who has only a general knowledge. In the "History of Accountants and Accounting," to which I have already made reference, I find the following:—

> "But another influence which must not be lost sight of is the *specialisation* of the various branches of the accountant profession. We have not yet lost that wide range and variety of work which has already been alluded to as one of the charms of the profession; but there is no doubt a growing tendency on the part of firms and of individuals to devote themselves more particularly to one special branch of work. Formerly an accountant not only carried on all the varieties of what is now considered legitimate accountancy, but he frequently added to that some other more or less kindred occupation. Now we hear of men being specially marked out as railway accountants, company promoters, Court accountants, bankruptcy trustees, and the like. Not only is this so, but there are accountants who look after the interests of particular trades, and to a large extent confine their practice to these."

The wide range and variety of work is certainly a charm, but when one sees that specialisation pays best, then in these days are you going to retain the pride of being a general practitioner with all its charms to that of a specialist with his handsome fees? There is room for both in a community. My views on this point may be looked upon as mercenary ones, but we cannot live on charms alone. It is said that specialisation has a narrowing influence on the mind, but it can equally be said that it stimulates invention. Nothing startling has taken place in accounting during these last 50 years, but with specialisation we might get some new developments.

I do not for one moment wish to lower the just pride an accountant should have in his profession. It is an honourable profession, but somehow or other we must begin to look upon the profession not as something aloof but as part of the great mercantile community whose one object is to increase the production of this great country of ours. We must work in close unison with the mercantile community, and I can see great benefits accruing to the nation if accountants or the corporate bodies to which they belong worked in closer touch with those engaged in commerce. I cannot help reverting back to cost accounts. Education is greatly needed by all on this subject. The specialist in costing can institute methods of checking waste and in many ways act as an important factor in securing the greatest production possible.

In the Memorandum of Association of our Society there appears, among other objects—

> "To promote and foster in commercial circles a higher sense of the importance of systematic and correct accounts and encourage a greater degree of efficiency in those engaged in book-keeping."

This clause is wide enough to permit of the Society conducting a course of education, not only of the members and students, but of those engaged in manufacture.

To the student of accountancy a training in a specialised office is not good. The student should be trained in an all-round office where, if possible, a little experience of all the above classes of business can be gained. My own experience, which is a wide one in dealing with accounting students, showed me that in practically no case had the student a practical knowledge of all the subjects upon which he was being examined, and recourse was had to "coaches" to enlighten him on the stock questions bearing on the other subjects. This enabled him to pass his examination, and although qualifying he was yet quite ignorant of the practice in many of the subjects. This great drawback to the young accountant setting out in life could, to my mind, be remedied by the Society having at its disposal experts in the various subjects and instituting an educational policy whereby those not acquainted with certain parts of the work of an accountant would get practical demonstrations from those experts, and not "cramming" as is secured from the "coaches." A start could be made, for example, in costing. There are in our own Society experts in costing whose services might be obtained to further the interest of the younger generation. It seems to me not an insuperable task for the Society to take up. There are at the present day too many schools of accountancy, as they are termed, where the theory is taught and sufficient knowledge given to enable candidates to pass an examination, but the ideal state is that to which I have referred of giving practical instruction.

I trust I have not wearied you with my remarks, and would, in conclusion, thank you for your presence here this evening to support Mr. Paterson, our energetic Secretary, in his endeavour to further the interests of the Society.

Obituary.

CHARLES COMINS.

We regret to announce the death, at the age of 57, of Mr. Charles Comins, F.C.A., senior partner in the firm of Charles Comins & Co., London, which took place on August 23rd after a very brief illness. Mr. Comins was educated at Aske's School, Hatcham, and King's College, London. He was elected an Associate of the Institute of Chartered Accountants in 1890 and a Fellow in 1895. He was well known in the profession and took an active interest in all matters affecting its welfare. He was vice-president of the Chartered Accountants' Benevolent Association and a member of its Executive Committee. He was also a prominent member of the group which initiated the movement that resulted in the formation of the London Members' Committee. In addition to his professional activities Mr. Comins was chairman of the Finance Committee of the Bromley Urban District Council and was a liveryman of the Haberdashers' Company. In his spare time he was devoted to agriculture and cattle breeding at Wilby Hall, Suffolk, of which county he was a Justice of the Peace. Mr. Comins was a generous contributor to the Incorporated Accountants' Benevolent Fund, and was elected a Vice-President of the Fund in 1919. He leaves a widow and six children, to whom we extend our sincere sympathy.

JOHN RICHARD HUDDLESTONE.

We regret to record the death, on August 2nd, of Mr. John Richard Huddlestone, of Blackpool. Mr. Huddlestone was elected a Fellow of the Society in July, 1896, and had been closely identified with the enterprises of Blackpool, particularly the Winter Gardens Companies, of which at the time of his death he was managing director. He took a considerable interest in the work of the Blackpool Victoria Hospital and was largely instrumental in raising £25,000 for that institution last year. The interment took place at St. Annes. The sympathy of Incorporated Accountants will be extended to his widow, who has shared her husband's zeal both in his private enterprises and his public work.

Rules and Principles Governing Public Expenditure, particularly Municipal Expenditure.

AN Address delivered at the annual meeting of the Institute of Municipal Treasurers and Accountants (Incorporated) by

MR. ROBERT PATON,
City Chamberlain, Edinburgh.

Mr. PATON said: Much attention has recently been directed to the burden of public expenditure, and although no one suggests that this alone is the cause of all our economic ills, nearly everyone who writes or speaks on the subject of the prevailing depression in the country gravitates sooner or later to the question of imperial and local taxation and points to the baneful influence which it exerts on our national prosperity. The fundamental cause of all this agitation is, of course, that man is continually demanding food and comfort—in greater quantity, of better quality, of infinite variety—for his body, his mind and his spirit, and the complex human machine is constantly at work trying to supply these wants. Man knows instinctively as well as by experience that anything which retards the full working of the machine—and one of these factors is increased costs—restricts the output and keeps his cupboard bare, and, as the old proverb has it, "a hungry man is an angry man." Hunger, in fact, seldom keeps the peace.

In this agitation allegations are made regarding waste and extravagance in the cost of running that part of the machine which provides food and comfort in the shape of national and local services. Strong opinions are, in fact, freely stated that this is one of the main reasons for the present attenuated state of the nation's larder. I do not propose to break a lance with the protagonists of these views, for I do not altogether disagree with them. Neither am I about to submit to you an exhaustive thesis containing the outstanding figures relating to public expenditure along with an analysis in detail of its economic effects and a statement of the deductions which may be made from such an investigation, for that is beyond my powers. It has occurred to me, however, that as we are all more or less in positions of responsibility regarding local expenditure it might not be inappropriate if we turned the lantern on the screen and studied our own little picture in particular, in order to lay hold, if we can, of the principles which should guide us when we are asked to approve of new or extended local services involving additional costs. Hence these notes.

I should like, however, before passing to the local aspect of this subject, to make one or two general observations and deductions. In the matter of all public expenditure control is a prime consideration, but control can only be wisely exercised when it is operated along with other well established rules or principles. It is equally true that no rules or principles are of much value unless there exists concurrently an adequate and effective system of control. Without these aids financial stability becomes a mere matter of chance. We know of numerous examples of world States which crumbled to decay through arbitrary and uncontrolled spending. And let us remember, too, that not so long ago, when the privilege of spending and the right of raising revenue in Great Britain were exercised by the Sovereign alone, this state of matters virtually reduced our country to the verge of starvation. Are we not all familiar with the part played by Pym and Hampden in the historic events of the seventeenth century, which finally resulted in the control of public expenditure passing into the hands of the people's representatives, that is, to the House of Commons, where it remains to-day? One could also name two or three British cities which within the last 100 years or so unfortunately found themselves in serious financial embarrassment, if not actual bankruptcy, through prodigal spending, and history, as we know, has sometimes a tendency to repeat itself. We do not, of course, contemplate a recurrence of these events to-day, but it is well to keep fresh in our minds at all times the salutary lessons to be learned from the past. In modern times it is a peculiar psychological fact, which we must always reckon with, that while economy in public expenditure is usually adopted as a battle cry by the mass it is seldom supported in action, except by the few. In the matter of economy in local expenditure, the only safe course, in my view, is for every member of a finance committee and every financial officer to attune himself persistently to bull-dog principles and never yield except to the logic of absolute conviction.

Without further elaboration I think the first general rule which we might note is that all public expenditure should be subject to effective control.

My next consideration affects the inter-relationship of expenditure and income. If the question were asked whether there is any limit to public expenditure I suppose the answer would be that in theory there is none. But we do not carry on by theory alone; we live in a practical world where it usually rests with the practical portion of the people to say the last word. Let us apply our question, then, to the case of the individual. We will find, I think, that his spending is ultimately limited by the size of his income. As a rule he applies part of that income to meet expenditure on his private wants, and he has to contribute a part of it towards the expenditure on what may be termed his public wants, that is, on national and local services. If his income is not sufficient to meet his expenditure under both these heads he must, as a rule, cut out some of his private wants, but it is obvious that there is a limit even to that—a limit beyond which he cannot go and still survive. The expenditure on his public wants must accordingly be limited at its full stretch to the difference between the cost of bare subsistence and his total income, and how long he could remain an efficient economic unit under such conditions is of itself another interesting speculation which each may argue out for himself. We may therefore take it as an axiom that the amount of public expenditure which can be incurred on behalf of the individual cannot exceed a limited proportion of his income. When we turn, however, from the individual to the State, we find the opinion freely expressed by responsible persons in the State that income should be regulated by expenditure; in other words, that, irrespective of the amount of public expenditure, income may be raised to equate with it. It is difficult to accept this view; indeed the view is quite untenable if we adopt the axiom regarding the individual, because public revenue can only be extracted from the nation as a whole—that is, from the aggregate income of all the individuals forming the nation—and it cannot go beyond a limited portion of that income, otherwise the nation would starve and die. If further proof were needed of the truth of this view it may be found in what I have already remarked, namely, that history records numerous instances of States which have been ruined because of their inability to raise sufficient revenue to meet excessive expenditure. I have never heard of any State which was ruined by excessive economy. Sound finance and solvent conditions rest more on careful spending than on ability to create and collect revenue. In this connection let us think for a moment of the struggle that has taken place, and is still going on, among many of the nations on the Continent of Europe to maintain an economic existence for their people even on threadbare lines. These nations have apparently realised, though somewhat slowly, that the rake's progress leads but to the precipice, and that their only hope of real progress lies in the "balancing of budgets," as it is called; that is, in bringing public expenditure within the limits of the income available to meet it.

My second general rule or principle is therefore that public expenditure is limited by income, *i.e.*, expenditure and income are correlative terms.

The foregoing general principles are of vital importance to local authorities, for there seems to be a strong inclination on the part of the members of the body politic to call for additional services involving additional outlays without regard to the ultimate effect of the extra burden thereby involved.

I propose, therefore, to come now to closer quarters with local expenditure and to lay bare, if possible, some additional principles which may help to keep us on the path of efficient and economical administration. In a search of this kind the following queries, among others, would probably suggest themselves, namely:—

(*a*) What are the appropriate kinds of expenditure to be undertaken by a municipality, and what is the nature of the benefits they bestow on the area?

(*b*) What are the different sources from which such expenditure is met, and what is the effect on the taxable capacity of the area of the abstraction of the required revenue?

I shall try to treat these two questions separately, although they are to a considerable extent complementary of each other.

To begin with, we may adopt the following classification of local expenditure, and follow it up in some detail thereafter:—

(*a*) Expenditure for the common benefit.

(*b*) Expenditure for the benefit of the individual.

(*c*) Expenditure for the benefit of both.

Dealing with (*a*) we will all agree that the larger the element of communal advantage potential in the expenditure the more readily will the necessity for the outlay be conceded. Such services as watching, lighting, cleansing, public health and education are of this kind. I need not define "communal advantage," nor can I detail all the expenditure of this nature, but it will admittedly include (1) expenditure which primarily preserves the taxable capacity of the area, although yielding no direct return—such is watching; (2) expenditure which primarily increases the taxable capacity of the area although yielding no direct return—such, for example, is education; (3) expenditure which yields a direct return, either full or partial, such as general improvements; and (4) expenditure on what we call trading undertakings, which may even yield a surplus. Although I have mentioned "a surplus" I am not to be taken as agreeing with the principle that a trading undertaking should be run in such a way that a surplus will normally result from its operation. To budget for a surplus is, in my view, akin to the aims of the cat burglar; at any rate it is something more than an attempt at petty larceny. Surpluses mean that more is taken from the user than is absolutely necessary, and to the extent that more is taken, so will production be impaired. In this matter it is sounder to enunciate the principle that local authorities should only undertake services which are not provided, or cannot be provided, by private enterprise, than to say that they should undertake services because surpluses can be squeezed out of them. With regard to (*b*), that is, expenditure for the benefit of the individual, one may say that facilities for football, cricket, tennis, golf, bowling, &c., are preponderatingly individualistic in their incidence. I know I shall be met with opinions which would emphasise the public health aspect of these services as representing communal benefit, but I think there is a tendency to overdo this argument. In my own city the policy with regard to outdoor recreation, may I say, is to meet debt charges out of the rates and to levy toll sufficient to meet the cost of maintenance direct from the players of the various games. This, as a rule, works out all right in golf, tennis, cricket and football, but when it comes to bowling it is another story. There is always a deficit on that game, and always an attempt, usually unsuccessful, on the part of the corporation to increase the charges so as to wipe out the deficit. When you point to the precedents of tennis and golf, in which cases the charges do meet the cost of maintenance, and you think you have clinched the matter, you are sure to be faced with the public health aspect of the game, and the balancing of the budget for bowling remains a forlorn hope.

As to (*c*), that is, expenditure for benefits which are partly communal and partly individual in their application, one might cite the case of infectious diseases hospitals or, better still, the case of water, which, while being a necessity of life to the individual, is more cheaply obtained for the community by reason of the monopoly of supply which is granted to the community. At this point, then, I think we may set forth another rule or principle, viz, that public expenditure should have some element of common benefit for its justification. Without this element the expenditure should not be undertaken by the municipality at all. But the rule just stated is subject to an important qualification. While the bare carrying on of a service may be of distinct communal advantage in that it enters into competition with private enterprise and so helps the community to obtain the advantages which normally flow from free and unrestricted competition, there may be no communal advantage derivable from an extension of the service; indeed, there may be distinct hurt to the community. It is in this direction—the over-development of services—that I think local authorities are most liable to err. Apparently in the belief that the optimum results will be thereby obtained, certain municipal minds proceed, without due thought I fear, to contemplate the intensive development of every service almost as soon as it is inaugurated. Great danger lies in this. By way of example I should like to venture the opinion that housing is one of the services which fits into the definition given above. It may have been quite legitimate and quite reasonable on the part of the State to restore the building industry to its feet after the war by undertaking a certain measure of action for the supply of houses, but having recently examined the conditions in my own city I am persuaded that the continued action of the State and the municipalities combined has hindered the natural resuscitation of private enterprise, with a resulting disadvantage to the community which cannot be measured in money. The effort of the State and the municipalities together to build houses at a greater speed than the supply of labour and material would normally allow has brought about an excessive rise in capital costs, the incidence of which is going to be felt in this country for the next 50 or 60 years. And the disadvantages are not economic only, for the grouping of numerous tenants with the same common interest—that is, with the municipality as their landlord—in a number of houses in a well defined area will inevitably lead to trouble, the extent and nature of which we can well imagine but may not discuss here.

I wish to make it quite clear, of course, that I am not in the least concerned with any political question connected with housing. Neither do I take up the attitude that more houses are not urgently needed for the people. What I am anxious about is the general tendency to overdo the development of local services and thus create unnecessary additional local burdens, and I only instance housing as one in which, owing to and in the face of certain insurmountable obstacles, intensive development has led and is leading to what I believe will prove to be grave disadvantages.

Turning now to my second query, as to the different sources of revenue from which local expenditure is met and the effect which the abstraction of these revenues has on the prosperity or taxable capacity of the area, we may note the following classification:—

(1) Expenditure met wholly out of local rates.

(2) Expenditure met partly out of local rates and partly out of fees and charges.

(3) Expenditure met partly out of local rates and partly out of grants in aid.

(4) Expenditure met wholly from fees and charges.

A thorough exploration of this part of the subject would entail a scientific inquiry into the incidence of taxation in its various forms. That is an intricate and complex problem even for the professional economist, and I cannot take it up here, although I am aware that a bout with it is well calculated to keep one's skin in a healthy condition. Moreover, the question of incidence, so far as it relates to local rates, has already been dealt with more than once in papers read at the annual meetings of the Institute, although at this distance I cannot recollect whether the authors did successfully trace the "Elusive Pimpernel" to his lair and fix him in his real abode. In any case, I propose to look at the query I have put from a simpler point of view, namely, that of the cost of production. This is something with which most of us modestly profess to have some acquaintance. We know that it is an important element affecting the success or otherwise of all trade and industry, for it is true to say that if anything adds to the cost of production it will increase the selling price, and accordingly take more out of the pocket of the consumer and tend to restrict the demand. So far as local rates are concerned, I do not think it can be seriously argued that these do not enter into cost of production. But let us look at the question for a minute or two. I believe the view held in some quarters is that payment of local rates is merely a transfer of the burden from one pocket to another, but affirmations of this sort leave out of account at least the question of foreign trade and the effect which a high incidence of local rates has on this trade and the consequent repercussion upon employment. Another view adopted by some administrators towards proposed expenditure is that the burden will not bear heavily on the poorer members of the community because they only pay according to small rateable

values. This is rather a narrow outlook, for it fails to note that the poorer members of the community are consumers as well as ratepayers, and as such are compelled to pay equally with, though less able than, their wealthier neighbours, the increased prices charged by those who produce or distribute commodities and who naturally take care to reimburse themselves for the increased rates which they pay on their shops and business premises. I may here mention that, as the result of an investigation which was made a few years ago regarding the direct incidence of local rates in the City of Edinburgh, it was ascertained that the owners and occupiers of houses contributed about one-half of the total amount of rates levied, the other half being the contribution from owners and occupiers of shops and other business premises, land and public undertakings.

It is clear, I think, that all members of the community, rich and poor alike, who earn or receive income, bear the burden of local rates by paying direct to the rate collector and/or by paying indirectly through the butcher, the baker and the grocer; they likewise pay local rates in their bills for gas and electricity, for the water they use, and probably, too, in the whisky they drink! It is erroneous, therefore, to resign yourself to proposals for new expenditure to be met out of local rates on the assumption that the burden will only fall lightly on the poorer citizen because he is a comparatively small ratepayer.

Similar results affecting production would seem to be attachable to grants in aid, for these are paid out of the proceeds of duties, either *ad valorem* or specific, on certain commodities or out of the proceeds of the income tax or the estate and death duties. All of these are an abstraction from what would be mostly savings, and to the extent that they handicap saving they handicap industry. I am not overlooking the fact that in this relation income tax has recently been the subject of special investigation by the Commission engaged upon an inquiry into the National Debt, and that, in the views presented to that Commission by various economists, there is no unanimity. Generally speaking, however, it may be taken that income tax, whether it enters into cost of production by design or not, will ultimately affect cost of production because it undoubtedly curtails saving and thereby restricts the amount of capital available for production.

As regards fees and charges principally in connection with trading undertakings, no one, I presume, will dispute the fact that these must be a part of the cost of production, for that seems obvious.

If, then, it is admitted that expenditure, whether out of taxes, local rates or fees and charges, raises cost of production, it would be right to affirm as another principle that the expenditure of a local authority should not be increased beyond the point when it will begin to affect production adversely.

May I refer next to the guidance we may get from a study of some of the writings of the great economists? I remind you first of John Stuart Mill's objections to State action and suggest that before assenting to any proposals for public or local expenditure, these should be viewed in the light of Mill's principles—in particular, those which I refer to hereunder, viz:—

(1) "There will be a tendency," says Mill, "to wasteful expenditure under popular sentiment of various kinds." We who are acquainted with local administration must from experience admit the truth of this maxim. We should therefore keep it constantly in mind.

(2) "There is the danger of overburdening the administrative machine." Some of us, I am sure, are convinced that this is a danger to which local authorities can be exposed.

(3) "There is the danger of the want of interest on the part of the officials." Mill, of course, was thinking and writing about the State!

(4) "There is the need for developing self-reliance and initiative in individuals in order to shape properly the character of the people." This is a great fundamental truth, to which I think far too little heed is paid to-day.

If along with the guidance to be obtained from these principles of Mill you are satisfied that the proposal for expenditure is going to be for the communal advantage, and that the benefit will come to the community rather than to the individual, you have fairly well satisfied yourself as to the need for the expenditure.

We may also draw inspiration from certain analogies derived from principles of taxation as enunciated by the economists. Let me refer to some of them briefly:—

(1) "Although money may be appropriated towards some object of public expenditure, it may be illegally or illegitimately appropriated." This suggests the need for effective control, and incidentally, may I add, the need for each local authority having an efficient internal audit department.

(2) Public expenditure has been defined as "the distribution by the sovereign power of the revenue of the State for the service of the public power." We can apply this analogy to expenditure by local authorities.

(3) "The power to spend should not be exercised arbitrarily, but neither should it be used merely according to the personal ideas of those elected as representatives of the people—it should be exercised according to the ideas underlying the principles which decided their election."

(4) "It is not an acceptable principle of expenditure which has the effect of spending out of public moneys as much on the rich as on the poor." Education is a case in point. Education could be made uniformly a free service, but it is better, I think, to make the rich pay as far as possible down the scale before making the service free to the others. Many financial problems connected with education might be more easily met by the application of such a principle.

(5) "There is great danger in making precedents." Precedents are like boomerangs—or the proverbial chickens that come home to roost. If you once admit the necessity for expending money on one object, you will soon be met with demands for help from all similar objects. If you decide to help one charity from the rates, you must be prepared to do the same for others. Even if you try to show that there is a difference, as there usually is, between the merits of one and the merits of others, sooner or later your defence will be broken down. The danger of making precedents should be particularly borne in mind when considering the institution of a new service. We should always ask ourselves what may this bring in its train? We should keep in view also that the offer of a grant in aid is not of itself a justification for adding to local burdens.

(6) "Public expenditure ought to be definite and certain." This points to the need for publicity and for efficient audit. No commitments should be undertaken if they cannot be brought into the limelight of public opinion; and careful watch should be kept to see that the limit authorised is not exceeded.

Before concluding I should like to refer again, but only briefly, to the question of control, especially control in the matter of local expenditure. I mentioned already that, in the case of States, expenditure was originally purely arbitrary, that is, it rested almost entirely on the whim of the sovereign. With the ultimate emergence of democracy and the doctrine of representation, some control of State expenditure was urgently demanded, and was effected, in this country at least, by the method called "appropriation of supplies"—that is to say, by voting definite sums for definite purposes accompanied by the cabinet system of government under which the Ministry of the day is responsible for the expenditure and liable to constant criticism by the Opposition. It seems reasonable to assert that expenditure in the sphere of local government should be subject to control as effective as it is in that of the State. With local authorities, however, control of expenditure is more difficult. In the usual type of town council the State system of control is impracticable, for there are not in that body two or three well defined parties, one of which is in power with its acts being held in check by the public opinion of the area and the criticism of an opposition. There is instead an organisation consisting of a number of committees called "spending committees" and a finance committee. The spending

committees often vie with each other in extending the particular services under their administration, and the finance committee is the only barrier between such prodigality and the exercise of that prudence which is essential for the economical management of the community's affairs. A great drawback, too, in the matter of effective financial control is the system of ward representation which, in most cases, creates a competition for services almost resembling the competition in armaments which was so common a feature of world state policy before the war. The question for consideration which is constantly cropping up is how can effective control of local expenditure be brought about? in other words, how can the corporate body, *i.e.*, the body as a whole, establish a rampart which will protect it from the depredations of its component parts. In addition to the iron-clad economy on the part of responsible individuals to which I have already alluded, including a prudent part, may I add, which the financial officer himself may play, there does not appear to be anything but a considered series of standing orders designed to secure a complete scrutiny of all proposed expenditure, first of all from the point of view of the ability of the area to bear the contemplated burden, and secondly, from the point of view of all the rules and principles of expenditure which I have ventured to outline herein. There may be differences of opinion as to where the practical responsibility for seeing these standing orders carried out should be placed, but I venture to express the personal opinion that this duty is one which naturally fits in with the functions of a finance committee.

The following is a summary of the main rules and principles to which I have made reference:—

(1) All public expenditure should be subject to effective control.

(2) Public expenditure is limited by income, *i.e.*, expenditure and income are correlative terms.

(3) Public expenditure should have some element of common benefit for its justification. The over-development of a service already instituted may, however, neutralise the original element of common benefit.

(4) The expenditure of a local authority should not be increased beyond the point when it will begin to affect production adversely.

(5) There is a tendency to wasteful expenditure under popular sentiment of various kinds.

(6) There is a danger of over-burdening the administrative machine.

(7) There is the need for developing self-reliance and initiative in individuals in order to shape properly the character of the people.

(8) The power to spend should not be exercised arbitrarily, nor even according to the personal ideas of the publicly elected representatives; it should be exercised according to the ideas underlying the principles which decided their election.

(9) It is not an acceptable principle of expenditure which has the effect of spending out of public moneys as much on the rich as on the poor. Education is a case in point.

(10) There is great danger in making precedents. This should be particularly borne in mind when considering the institution of a new service; in this connection, too, beware of the temptation inherent in Government grants.

(11) Public expenditure ought to be definite and certain. It should not be undertaken if it cannot be brought into the limelight of public opinion.

(12) Local government expenditure should be subject to control as effective as that in the case of the State. The best means of bringing this about seems to be by a series of standing orders designed to secure a complete scrutiny of all proposed expenditure, first from the point of view of the ability of the area to bear the contemplated burden, and second from the point of view of the rules and principles above enumerated.

COMPANIES COMMITTEE.

The following are extracts from the evidence given by Mr. A. B. Bryden and Mr. Walter Reid on behalf of the Chartered Accountants of Scotland before the Departmental Committee appointed by the Board of Trade to consider and report what amendments are desirable in the Companies Acts. The headlines are ours.

Holding Companies and Consolidated Balance Sheets.

The CHAIRMAN: The next matter I want to come to is the question of accounts, and I propose to leave most of the questioning with regard to that to others, but I would like for my own information to ask you a question on the subject of accounts of holding companies. In general could you tell us what the practice is, if there is any fixed practice with regard to holding companies nowadays, the ones which come within your experience? Is there a growing practice among holding companies of giving their shareholders more information with regard to their subsidiaries than appears on the face of their own balance-sheets?—There appears to be a growing practice. Here is the balance-sheet of a big firm which came out yesterday.

Might I see that? (*Same handed to the learned Chairman.*) This, I observe, is an amalgamated balance-sheet?—Yes.

Does this balance-sheet lump together all the assets of the subsidiaries on the one side?—Yes.

And all the liabilities on the other?—I believe so.

Of course, together with this the company publishes to its shareholders, I suppose, its own balance-sheet in the ordinary way?—Yes.

But does not publish to its shareholders separate balance-sheets for its various subsidiaries?—No.

Merely the consolidated balance-sheet?—Yes, for the subsidiaries.

In your view, does a document of this kind give to shareholders a really correct idea of what the position of the group is?—It certainly gives a great deal more information than the ordinary balance-sheet which simply states interest in associated companies. This is certainly a great improvement.

I am just wondering. Of course, there is nothing in this which would enable a shareholder, in a case where there are, let me say, four subsidiaries, A, B, C and D, to tell how A is doing, or how B is doing. It might very well be, for all that this document could tell you, that A is hopelessly insolvent and B is very flourishing?—Quite.

Therefore the information it gives is defective in that respect?—Yes. We go further, and say they should publish profit and loss accounts of each subsidiary company, or a summary of them, showing the profit or loss for each subsidiary company.

You go as far as that?—Yes.

And the balance-sheet of the subsidiary?—Yes.

May I take it that in your view this method of publishing a consolidated balance-sheet, although it is a step in the right direction, is really not enough?—It is a beginning, you see; it is only starting. It wants to go a little further.

You see, here you find sundry creditors and trade credit balance all lumped together?—Yes; that is bad.

And the lands, buildings, plant, machinery, wagons, &c., all lumped together; there is nothing to tell the shareholders what the assets of the various subsidiaries are, or what their liabilities are?—Surely it states the combined assets and liabilities.

It lumps all the assets together; it does not separate them?—In the ordinary balance-sheets of the parent company they simply had the investments in one item, and that is the first item on the amalgamated balance-sheet at the top.

How do they carry into their balance-sheet their shares in the subsidiaries?—They call these investments in associated companies and they represent the whole share capital of the parent company in the subsidiaries.

It is the same figure, is it?—Yes.

Do they adjust the value of their investments in subsidiaries in accordance with the values as shown by the subsidiaries themselves?—Evidently. In effect they do.

And they do not bring in the investments at cost, or at par, or anything like that, but would vary them from year to year, the investment figure in their own balance-sheet?—No, I think they seem to bring them in at cost, less amounts written off.

May I see the company's balance-sheet? (*Same handed to the learned Chairman.*) Of course, the figure of investments here at cost is not the same figure as the assets in this consolidated balance-sheet?—No.

Yes, of course. Really this figure on the left hand side of the consolidated balance-sheet is to show the total issued share capital of the subsidiary companies divided up into headings, (1) the shares held by the holding company, and (2) shares held outside?—Yes.

But in substance that is what it is: all the share capital of all the subsidiaries lumped together as though they were one company?—Yes.

And carried in, of course, on the left hand side accordingly?—Yes.

Similarly, of course, there is nothing in this to show which of the subsidiaries has issued debentures or mortgages, and to what amount. Of course, from the point of view of the shareholders this may give them all they want to know; on the other hand, a document of this kind would not be much use nowadays to a creditor, would it, supposing you had a creditor, a person who was dealing with one of the subsidiaries and who was not interested in any of the others?—No.

There is nothing on this to tell him what is the position of the particular company he is dealing with?—No.

Would you agree that is one of the defects of this class of document?—Yes. (Mr. REID): If the assets are fairly valued he can see the company is solvent; the capital is intact.

Take the case I was putting, of a holding company having an interest in subsidiaries A, B, C and D, and a creditor who is only concerned with subsidiary A. What he wants to know is the financial position of subsidiary A?—(Mr. REID): A balance-sheet shows if the capital is intact.

It does not do that, surely. How can it possibly do that when it lumps together all the assets of A, B, C and D? For all anyone looking at this can tell, subsidiary A might have lost 75 per cent. of its capital?—(Mr. REID): You mean the assets may not be properly valued?

No, not at all.—(Mr. REID): The assets are set forth as if they were of that value.

My point is this: If you have got your balance-sheet set out as the combined assets of A, B, C and D, there is nothing to tell you what the value of the assets of A is.—(Mr. REID): The supplementary statement shows that, I think, does it not?

No. If you look at it they are all lumped together, and it is quite impossible, I apprehend, from that for anyone who wants to find out the position of subsidiary A to find out what it is?—(Mr. REID): The parent company knows the whole of its capital.

Yes. That is to say, in this case, they hold all the capital of the subsidiaries except what is stated separately, and the assets are set forth here.

Would you look at that document and tell me what is the financial position of the first of the subsidiaries named at the head of that document?—That is *en bloc*.

Yes, I know; that is the point. If you will imagine that I am a creditor and I have been dealing with the first of the subsidiaries named at the top of this, and I want to know what the financial position of the subsidiary is, I am not interested in anything else, because if there is a liquidation it is to that subsidiary, and that one alone, that I can look.—If it is a public company you could get their balance-sheet.

But supposing it is a private company?—You will exercise due caution in the giving of credit.

But the question we are considering here is rather whether in a case of this kind there should be some statutory provision compelling disclosure—that is the point—and assuming that disclosure was compelled, would it be satisfactory to compel disclosure in this form which really would not give the creditor what he wants to know? That is the difficulty which I feel.—(Mr. REID): How far are you going? The investment in a subsidiary is equivalent to a private investment.

Of course, with regard to the matter of how far we should go, that is a matter for the legislature to decide; but one is rather approaching this on the footing that it may be desirable within certain limits—I do not say more than that—to compel a holding company to give some more information both to its shareholders and to its creditors than it does at present with regard to subsidiaries. Will you take that quite generally and tell me this: That if the legislature thought fit to do that, would it be of any real assistance to creditors to give them a document of that sort which does not tell them anything?—(Mr. REID): I suppose they are quite respectable—

But there, again, I am afraid you have not got my point?—You want to split them up.

What a creditor is concerned with, surely, is not the joint position of companies A, B, C and D, but the individual position of the particular company with which he is dealing?—I find a great difficulty in going down to a fine point with any small company. Broadly, the assets are all stated there as far as this company is concerned.

You do not agree with me, anyhow. Perhaps I approach it rather from a lawyer's point of view?—I am speaking from the point of view of the parent company.

I am approaching it from the point of view of a creditor who does not care about the parent company; he is not a creditor of the parent company but of the subsidiary company, and he wants to know what the position of the subsidiary company is. It is no assistance to him to tell him it is a subsidiary of a very flourishing parent company, because if the subsidiary company goes into liquidation he cannot touch the assets of the parent company; the only assets he can go against are the assets of the particular subsidiary which owes him money?—The more light the better for the creditors and the shareholders.

(The CHAIRMAN): In other words, we must be thankful for small mercies.

(Mr. ANDREWES-UTHWATT): With regard to the statement in your memorandum, you say a summary of each one?—The holding in a subsidiary is similar to an ordinary investment.

(Mr. TENNANT): Your recommendation is that they should publish separate statements for each subsidiary company?—You may have small private concerns; how are you going to get at them?

(The CHAIRMAN): We are talking about the general case, the sort of case with which we are all familiar; the definition of it may be difficult. We are dealing with the kind of case we are all familiar with—these big holding companies. That is the thing which we are thinking of, and I apprehend that it was to that class of case that this recommendation was directed.

(Mr. CASH): I noticed just now that Mr. Bryden rather qualified that word "statement" by saying he meant by that profit and loss accounts. I was going to ask him whether he really meant profit and loss accounts or balance-sheets. In answer to the Chairman when he asked you about profit and loss account, you said you intended separate statements to mean profit and loss accounts.

(The CHAIRMAN): Perhaps, Mr. Bryden, you could clear that up. Looking at your recommendation when it refers to separate statements or a summary, is that intended to refer merely to profit and loss accounts or to balance-sheets, or to both of them?—(Mr. BRYDEN): I think our committee said a statement; they just left it at that; that a statement should be issued. They did not say whether it was to be a balance-sheet or profit and loss account. I should say a balance-sheet would be sufficient showing the trading results for each subsidiary.

Anyhow, I imagine on general lines what they were after was some statement which would enable the person who got it to form a correct view, though not necessarily a detailed view, of the financial position of the subsidiary company?—Yes. (Mr. REID): What was in the mind of the committee was a parent company. According to my view, it was in the interests of the shareholders of the parent company that they must give the necessary information either by separate statements or as a summary. They let it be known that the assets were all apparently real.

But it is intended the word "summary" should still be governed by the word "separate," is it not? Is this an

alternative; either separate statements for each company or a summary by which you mean something of this kind?—Yes, from the parent company's point of view.

(The CHAIRMAN): I see.

(SIR WILLIAM MCLINTOCK): Is it not desirable that a parent company should state somewhere that it has taken care of all the trading losses made by subsidiaries in arriving at the total profit?—How could you carry it out?

A consolidated balance-sheet must show the profits, and the result must be the profit and loss account balance in the group?—Yes.

If it is carefully framed?—This subsidiary statement, I take it, shows the aggregate of the profit and loss of all the subsidiary companies from the point of view of the parent company. Is not that sufficient?

It is an advance on anything they are compelled to do to-day?—Are you going the "whole hog" and insisting on profit and loss accounts being given by all concerns?

That is the point?—If you go that far, then it should follow that subsidiary companies should be treated in the same way, but I do not think Chartered Accountants are prepared to go as far as that—to insist on a profit and loss account for each subsidiary company, or for the parent company.

(The CHAIRMAN): Perhaps you could tell me from your experience, is there a rooted objection on the part of holding companies to publish to their shareholders the full accounts of the subsidiaries?—(MR. REID): I am sorry; I have had so little experience; there is so little of it in Scotland that I could not answer that question.

(The CHAIRMAN): I think with regard to the question of accounts it would be convenient if Mr. Cash, Sir James Martin, and Sir William McLintock could continue the matter.

Auditors and their Qualifications.

(MR. CASH): You say in your Memorandum with regard to the indemnity clause: "That such clauses in Articles of Association should not be permitted and should be declared as of no effect."?—(MR. BRYDEN): Yes.

I suppose you would not think it was feasible to make any limitation in the appointment of auditors to any specified bodies?—We advocate the advisability of qualified accountants being appointed.

Would you think anything of the suggestion that auditors in all cases should state their qualifications, whatever they may be, upon signing the balance-sheets?—Yes; it is a very good idea. (MR. REID): I should like an accountant to be a practising accountant.

Would you think it feasible to make any limitation?—I think that the auditor must be a practising accountant.

With regard to your Clause 8 (*d*), would you make that universal? You say, "If a partner of a firm is a director or an officer of a company, neither his firm nor any partner of that firm shall be eligible for the appointment of auditor or auditors." Would you make that universal, or would you make any exception in the case, for instance, of private companies where the shares are all in a very few hands?—(MR. BRYDEN): I think with regard to private companies we would make an exception. The words "or an officer" should come out. We take that view.

(SIR JAMES MARTIN): I should like to ask you some questions with regard to the duties of auditors as laid down in the Companies Acts at present. Do you think it is necessary to define them more particularly?—No, I do not think so. The auditors at present have to report, and to include in their report any irregularities; to point out if the assets are over-valued, or if there are any loans to directors and officials. Sect. 113 gives us a great deal of power.

Would you improve the section by attempting to define in specific instances what auditors should do?—No; I think it is better to leave it open.

With regard to Mr. Cash's questions as to the qualifications of auditors, is there any difficulty or objection to the suggestion that the auditors should state what their qualifications are when signing a balance-sheet?—I think we all do, do not we, as a rule?

I did not take your answer or Mr. Reid's answer to be very definite on the point. I think Mr. Reid said a practising accountant, but does that get you any further?—(MR. REID): Pardon me; but I wish it to be in the Act of Parliament not merely an auditor, but that a practising accountant shall be appointed as an auditor.

Cannot anyone be a practising accountant?—Not unless it is his business.

Is not it a fact that anyone could start as a practising accountant to-morrow morning?—If that is his business.

I put it to you that anyone could practise; it is not a question of it being his business or not. I submit to you that in the present state of the law he could, if he were so disposed, commence business as a practising accountant?—If he is a genuine accountant he can be so described.

No; my contention is that there is nothing in the law to prevent it.—Quite.

What good does it do to say that you shall have a practising accountant?—Because many men are appointed as auditors, for example, through the Friendly Society system, who do not profess to be practising accountants. If a man professes to be a practising accountant you have to take him at his own estimate.

I submit to you that it is no safeguard whatever to say that a man shall be a practising accountant, because anyone can be a practising accountant?—If he is a genuine practising accountant he will be eligible under my clause.

Why not consider the idea which Mr. Cash put forward, that every auditor should state his proper qualifications after his signature?—I do not think Parliament would do it, from my experience.

Need we bother about what Parliament will do; it is only for us to consider what ought to be done and make our recommendation. If that is turned down we have got rid of our responsibility?—I am thoroughly in favour.

Consolidated Balance Sheets (resumed).

(SIR JAMES MARTIN): I should like to go back to the question of the consolidated balance-sheet. Is there any advantage whatever in a consolidated balance-sheet over and beyond the legal balance-sheet which is now in force?—Yes, I think so. The legal balance-sheet only shows the investments, does it not, or investments in the subsidiary companies, and this further balance-sheet gives more detailed information; you know the amounts due to the creditors, and the assets are detailed.

As the Chairman has pointed out, the consolidation does not give you any index to the actual position of the subsidiaries?—No; but if that had been put in four columns, as it would have been if I had done it, you would have seen each company's assets, liabilities and profit and loss balances.

That would mean, would it not, if you put it in columns, stating the position of every company?—Yes.

Might I put to you the case of a parent company or a holding company which has over 100 subsidiaries; what is going to become of your columns then?—Well, you would have to print them in another way. It must show that some of the subsidiaries were in a poor way, and the shareholders would say: We had better wind them up.

Does it not point to this: That to be of any use whatever one must publish the legal balance-sheet and also publish the balance-sheet of all the subsidiaries?—Yes.

Then it means that the unfortunate shareholder would get a huge bundle of documents, does it not?—Of course, it would in the case of 100 companies, but that is very exceptional, is it not?—(MR. REID): You are assuming——

I am not assuming anything; I am putting an actual case?—(MR. REID): In this case may I ask whether the subsidiaries are all controlled by the parent company, because I think what Mr. Bryden and I meant to say was that it only applies to subsidiary companies which are controlled by the parent company.

(SIR JAMES MARTIN): I think you can assume the control for the purpose of the question. I cannot answer that right off.

(MR. BRAND): I know of a case where there are over 100 companies controlled by the parent company.

(MR. HAROLD BROWN): Can you have a subsidiary company which is not controlled by the parent company? What is the distinction you draw between a subsidiary company which is controlled and——I want to get a definition of the word "subsidiary." It really implies, I should say, control.

(Mr. MORTIMER): What is control—33⅓ per cent. or 51 per cent.?

(Mr. TENNANT): 51.

(SIR JAMES MARTIN): We are getting into rather deep waters, if we are trying to determine what are controlled companies and what are not.

(Mr. MORTIMER): I only wanted to get some idea of what the witness meant.

(SIR JAMES MARTIN: I am trying to follow up the questions which have been put as to whether it is possible to improve upon the publication of accounts as at present issued. I do not want to get involved in a lot of legal questions which I am not qualified to deal with. I take it that your view really is that it would be better to have the existing balance-sheets *plus* the balance-sheets of all the other companies?—(Mr. BRYDEN): Yes, that is it; or, if not, this system. (Mr. REID): A summary.

With regard to the summary, the Chairman has already asked questions which show the great objections that there are to it?—(Mr. BRYDEN): Yes.

I put it to you that the objections which there are to a summary which puts all the subsidiaries together would be greater in force if applied to a consolidated balance-sheet which attempted to consolidate the whole of the liabilities and assets together. If all the liabilities and all the assets were consolidated the position of the parent company might be entirely lost?—Yes; I should not desire that.

The main company might be in difficulties; it is true it would have these holdings, but it might have difficulties inherent in itself?—Yes.

And by amalgamating together all the other items you might lose the real position, and the balance-sheet would be a far worse document than the one which is at present put forward?—Yes, that is so.

(Mr. STIEBEL): With regard to this combined balance-sheet. Mr. Reid, I think, said that the idea was to show the position on behalf of the parent company only. Might not you have this position, that the combined balance-sheet might show that the liabilities exceeded the assets, but, in fact, when you came to look into it, you would find it was only one of the subsidiary companies that was badly down and that the parent company was really solvent?—Yes.

It does not necessarily show the position of the parent company either, does it?—You take a group of investments of an insurance company, say, in Buenos Aires; some of them are weak, but they can still be continued at cost price.

But the combined balance-sheet does not necessarily show it?—It gives the aggregate of the investments in the same way as for a subsidiary company.

It may be charging the assets with more liabilities than in fact are due from the parent company?—It is quite true there may be some lame ducks among the subsidiary companies, but you have got the aggregate certified here. They are all controlled from one board.

Perhaps it is in fact charging the parent company with debts for which the parent company is not liable?—It may.

(Mr. HAROLD BROWN): I think perhaps my colleague got you to say something which you did not quite mean. He put it to you that the consolidated balance-sheet was of very little use, and that the only thing which was of any real use was the balance-sheet of a holding company and all the balance-sheets of the various subsidiary companies?—(Mr. BRYDEN): Yes.

I understand you assent to that proposition?—Yes.

I would like to put this to you: In considering this question as to whether consolidated balance-sheets are, or are not, of value, or should or should not be made compulsory, are you looking at it from the point of view of a shareholder in the holding company, or from the point of view of a creditor, or possible creditor, of the holding company, or one of the subsidiaries?—Really from the point of view of the shareholder in the large company.

I rather gathered from what you said in reply to the Chairman that you had in mind the position of the shareholder?—Yes, and the creditor also.

From that point of view I should like to put this to you: Supposing you were a shareholder in a holding company which, we will say, has not 100 but ten subsidiary companies. I do not want you to imagine yourself as a shareholder with your qualifications as an accountant, but as the ordinary outside investing shareholder with no special qualifications as an accountant; would you rather receive the balance-sheet of a holding company and a properly prepared consolidated balance-sheet of the subsidiary companies, or the balance-sheet of the holding company and ten different and separate balance-sheets of each of the subsidiary companies?—If you are asking me as an accountant, of course I would.

I agree. I will put it to you in this way. Supposing as a shareholder you receive the balance-sheet of the holding company and ten balance-sheets of the subsidiary companies, before you could form any true estimate of the real position would not the first thing you would have to do be to sit down and prepare some sort of consolidated balance-sheet for yourself?—I do not think so; surely not. The subsidiary balance-sheets would show the results of each company.

But they would not show, would they, the inter-company transactions? You could not tell, from looking at these balance-sheets, whether subsidiary company A had been selling to subsidiary company B at an inflated price and thereby largely increasing, or fictitiously increasing, the profit of subsidiary company A?—No, you could not tell that.

But if you had a properly prepared consolidated balance-sheet, certified by reputable accountants, they would have—at least I suggest they would have—eliminated improper transactions of that sort?—Yes.

And that therefore a consolidated balance-sheet, as far as the shareholder in the holding company is concerned, would probably be of very much greater value to him than a bundle of loose balance-sheets of all the subsidiary companies?—Yes, probably it would be more convenient.

(The CHAIRMAN): May I ask, Mr. Brown, why it is you assume that the accountants preparing the consolidated balance-sheet would have eliminated these transactions? I do not see how it could be done. They do not draw up something quite independent, do they?

(Mr. CASH): I think Mr. Brown is right. He used the phrase "improper transactions" I think, but eliminating that phrase you would find in practice a great number of cross entries between the two companies where there was inter-trading, that is to say, company A would have company B as a debtor and company C as a creditor, and when you cut all those out you do then get a true position of the whole combine so far as the relative assets and liabilities are concerned.

(Mr. BROWN): I will withdraw the word "improper."

(The CHAIRMAN): It would only eliminate it in so far as it appeared at the moment in the form of a debt owing by one company to the other; in so far as that debt had been liquidated by payment you would not eliminate it. The assets of subsidiary A might have been swollen by selling goods to subsidiary B at an inflated price. If it had been paid for those goods the profit would have gone into those assets and would be there; you would not eliminate that?

(Mr. HAROLD BROWN): The point upon which I wanted to get the witness's view was whether it really is correct from the point of view of a shareholder in a holding company. I am not dealing now with the point of view of a creditor, or possible creditor. I am dealing with the point of view of the shareholder of a holding company; whether it really is correct to suggest that the shareholder is able to get a more correct view if he gets a sheaf of loose sheets which he has not the knowledge to amalgamate for himself, or whether he gets a statement which has been prepared by a reputable accountant, certified by him, where they have done the work for him and amalgamated them. I suggest that the shareholders in the holding company is very much better off and much more likely to get a true picture of the situation if he gets the consolidated balance-sheet than if he gets a dozen or more loose balance-sheets containing entries which he cannot check, but which must in the nature of things probably contain a great number of inter-company transactions which ought to be eliminated.

(The CHAIRMAN): I quite appreciate that. It seems to me that the assumption underlying your question was putting the case a little too high, asking the witness to assume that a consolidated balance-sheet necessarily eliminated the results of inter-company transactions. But will you please go on?

(Mr. HAROLD BROWN): Supposing you, as a Chartered Accountant, are employed to prepare a consolidated balance-sheet which you are to certify and which is to go out to the shareholders of a holding company. Would you, in preparing

that, consider it a right and proper thing for you to do to eliminate as far as possible inter-company transactions so as to simplify the situation?—Yes; take them out on both sides.

(The CHAIRMAN): This is a very important point, and I am sure you will forgive me, but it all depends upon what you mean by the word "transaction." I can understand that you would eliminate inter-company debits and credits, but how can you eliminate a transaction which is concluded?—(Mr. REID): An asset and a liability; but this elimination is really immaterial.

(Mr. HAROLD BROWN): As far as the balance-sheet is concerned it would be an asset or a liability. If you were preparing a consolidated profit and loss account, then I take it you would have to check the question of inter-company transactions?

(Mr. BRAND): Or subsidiaries holding a large number of shares.

(Mr. HAROLD BROWN): Yes. I do not want to get into the position of giving evidence, but the complications that you would get I think would be very great.

(The CHAIRMAN): I want to get it quite clear. There may be something wrapped up in the use of the word "transaction," and I want to be quite sure how far it goes. I can quite appreciate, as I have said, that would eliminate inter-company debits and credits and balance them out, but what I want to know is whether, in answering your question, the witness intended to imply that you could eliminate the result of transactions of the kind you have mentioned, sales at inflated value which were closed; the goods had been bought and paid for and the thing is closed. How can you eliminate that?

(Mr. HAROLD BROWN): You could not eliminate them, but you could comment on them.

(The CHAIRMAN): That is a different matter. Now I have all I want, if it is a matter of comment and not a matter of elimination. I do not want to put anything into the witness's mouth; I am sure the witness appreciates what I am after. Perhaps now the witness could give his answer again, in view of that discussion, and see exactly what it would be that he could eliminate.

(SIR WILLIAM MCLINTOCK): There are two kinds of transactions.

(The CHAIRMAN): This is Mr. Brown's question. Mr. Brown, would you put your question again, and Mr. Bryden will answer it in the light of the discussion which he has heard?

(Mr. HAROLD BROWN): Yes. Assuming that you were employed professionally to certify for publication to the shareholders of a holding company a consolidated balance-sheet of either all the subsidiary companies, or all the subsidiary companies and the parent company, would you as far as possible, in preparing that and certifying it, eliminate on both sides inter-company transactions, putting on the word "transactions" the interpretation which the Chairman has put, and, if so, what sort of transactions or entries would you eliminate, and which would you leave alone?—If there is only one balance-sheet for the whole concern we would leave out the debtors and creditors between the companies, but in the trading company A trades with company B, we would not eliminate that: that would be impossible: in the balance-sheet the debtors would be left out and the corresponding creditors also.

Supposing you ascertain that sub-company A had been selling to sub-company B at what appeared to you to be an unduly high price, thereby inflating the profits of company A, and you found that company B had not been able to re-sell those goods and they were in stock in company B, would you take any steps either to eliminate that transaction or to comment on it in your report, or to deal with it in any way, or would you pass it?—I think we should comment on it in our report.

You would either comment on it or deal with it in some way?—Yes.

If the shareholder, instead of receiving that consolidated balance-sheet and all the facts being exactly the same, received the balance-sheet of each of the companies separately, would there be anything on those balance-sheets to show him that there had been these inter-company transactions?—Inter-company trading.

I will put in inter-company trading?—No.

He could not find out himself?—No.

There is one other point I should like to ask you about. It was suggested, I think, that the auditor of a company should be a duly qualified accountant, and that that should be a statutory requirement. Have you any experience of small companies that are formed, not necessarily for trading, but for the purpose of holding property, where that might work considerable hardship?—Yes, I see what you mean.

I have in my mind a case in the village in which I live, where we bought a recreation ground. It was a leasehold property, and no one wanted to hold it; so we formed a small company to own this recreation ground, and I suppose the whole income of the company amounts to possibly £25 or £50 a year. Is it suggested that that company must employ a duly qualified accountant to certify its accounts instead of the local greengrocer, who does it now?—Is it a limited company?

Yes.—You could perhaps restrict it to all companies of £500 capital and upwards.

(SIR WILLIAM MCLINTOCK): May I take Mr. Bryden's illustration? When one company lends money to another subsidiary, then on the consolidated balance-sheet the liability in the one company and the asset in the other disappear entirely?—Both disappear.

Then you have the case of a company which may have sold through one of its subsidiaries goods at an abnormally high price for the purpose, which Mr. Brown quite properly put, of showing a profit in one which they could not ordinarily earn. The accountant of the subsidiary company would challenge that transaction whether there was a consolidated balance-sheet or not?—Quite so.

That is, if he were attending to his duties. Then you have the case of sales by one subsidiary to another, or the parent to the subsidiary, which showed a normal profit, but the goods were still unsold in the possession of the subsidiary buying company. What would you do in that case?—Of course, the goods should be taken in at cost or market value, whichever is lower.

In other words, if subsidiary A, which sold the goods, had not done so, but had them in stock, you would insist on subsidiary B in a consolidated balance-sheet valuing them on the same principle as A would have done?—Yes, at a cost or market value, whichever is lower in either company.

Is it within your knowledge that in everyday practice that is the method which is generally followed?—It is the usual method.

You would say that in all properly conducted companies having subsidiaries they ought to follow that practice?—Yes.

Therefore the consolidated balance-sheet does not conceal things which would otherwise be hidden if they did not produce one to the shareholder; the mere consolidation does not conceal anything which would not be concealed; it is the same even if they had no consolidated balance-sheet?—Yes, if the subsidiary accounts were made up properly, there is nothing to conceal.

Assume these illustrations which I have given you have taken place. It would still be quite improper, even although there were no consolidated balance-sheet?—Still be improper?——

I mean to say in the two cases of an inflated profit between one company and another and to have no profit in one subsidiary where the goods had not been sold by the other: there ought to be a reserve made in the latter case?—Certainly.

Take the company whose accounts you have just submitted: that company is acting in a double capacity: it is not only a holding company but an operating company?—That is so.

As against a pure holding company?—Yes.

In the report to the shareholders evidently they have done something in the way of giving the shareholders additional information in producing this consolidated account of the subsidiaries?—Yes.

All they do is this. They say: "We have an investment in our balance-sheet which has cost us £2,600,000," and they proceed to show you on a separate statement what the assets are against them?—Yes.

That clearly is an advantage to the shareholders in the holding company?—Yes.

But, as the Chairman put to you, it discloses nothing but the general position to a creditor of a subsidiary company?—Yes.

Of course, at present the creditor of the subsidiary company gets no information whatever?—No, the creditor probably would not see the balance-sheet in any case.

So that it is not only a question of the creditors getting no information here, but they get no more misleading information by this statement than they would according to what is termed a legal balance-sheet?—No more misleading.

The creditor of a subsidiary company gets a little more information in this detailed subsidiary balance-sheet than if he did not get one at all?—Yes.

Is there any practical difficulty, in your view, in framing the consolidated balance-sheet?—I cannot say that I see any practical difficulty in it?

Could you tell us why the practice is not more common, according to your view, to produce a consolidated balance-sheet?—It is becoming more common now, is it not?

I agree it is becoming a little more common, but have you any views as to why it is not the everyday practice of a holding company?—(Mr. REID): Holding companies are comparatively new.

Assume it is not new?—Are you any worse off? There is one practical difficulty. It is very convenient having one auditor, who speaks for the subsidiary company as well.

That is very desirable?—Is there any reason to suppose that the balance-sheet of a subsidiary company is not made up on ordinary honest lines?

Of course, there is one serious difficulty. Assume there is not a common auditor. The holding company pays, we will say, £1,000,000 for a certain number of shares in a certain company and buys all its share capital. There is no obligation on that subsidiary to alter its own figures; it may have all its assets written down to a nominal sum?—It is not uncommon.

And the balance-sheet which would then be produced, the subsidiary certified balance-sheet would give no information at all worth anything to the shareholders in the holding company?—The shareholders in the holding company have bought shares at a premium, and they consider the shares are well worth the premium.

That is not quite my point. Assume that the balance-sheet of that subsidiary company is audited, we will say, by some other firm of auditors than the auditor of the holding company. He is not concerned, as auditor of the subsidiary, with the values at which these shares change hands?—No.

And therefore the balance-sheet which he certifies representing that investment of £1,000,000 if you saw it, might show an investment on paper of only £100,000?—Yes.

(SIR WILLIAM MCLINTOCK): Therefore to get the picture complete you must write up the assets of the subsidiary company in relation to the price paid for those shares, before you consolidate them?

(Mr. CASH): Or introduce the difference as goodwill.

(SIR WILLIAM MCLINTOCK): I am coming to that. But the point is: How otherwise can you consolidate a set of subsidiary balance-sheets unless you bring all their assets on to a common basis of value; or at least a basis of value having relation to the price paid for the shares?—Take the market value of the shares——

No, not exactly; because these shares had no market value: they are not quoted as a general rule?—I should deprecate the writing up of assets.

Why?—Because it may be a temporary occasion.

The point is: How can you have a consolidated balance-sheet unless you readjust the values of the assets of the subsidiary to correspond with the price paid for those shares by the holding company?—I thought you were talking of the parent company getting its balance-sheet and something of this sort for the subsidiary.

This company clearly has values on all the assets of the subsidiary companies which correspond with the price paid for the shares of these companies?—Yes.

(SIR WILLIAM MCLINTOCK): And therefore, unless you have an adjustment of the values of the assets of the subsidiaries to correspond with the price paid for the shares, you cannot consolidate them and show a statement worth anything at all?

(The CHAIRMAN): The balance-sheet would not balance.

(SIR WILLIAM MCLINTOCK): Yes, it would; but instead of having £4,000,000 in this statement you might have assets of half-a-million, and you have to readjust that with the price paid of two-and-a-half millions?—Our figures are smaller in the north than yours. A holding company paid £25,000 for the shares in a subsidiary company. In the books of the parent company that asset appears at the cost price, namely, £25,000, but in the subsidiary company, whose books I also audit, the share capital remains the same, at £15,000.

How will you consolidate those accounts?—I am not proposing to consolidate them. I say the parent company has quite a good asset which cost such and such and the revenue justifies it so that it is unnecessary to write down that asset. I do not see any need for it.

(Mr. CASH): That is not Sir William McLintock's question.

(SIR WILLIAM MCLINTOCK): I am not suggesting that the cost price paid for the shares is not a proper price, but before you can consolidate you must bring the accounts of all the subsidiaries into line with the values placed on the shares at the time of purchase, either by creating an entry for goodwill or writing up the assets?—Not necessarily.

(Mr. HAROLD BROWN): Or write down the value of the shares.

(SIR WILLIAM MCLINTOCK): You cannot do that. It would never do, in your opinion, to produce a legal balance-sheet with an asset of two-and-a-half million pounds and then proceed to give a consolidated statement showing that the assets are worth half-a-million?—The capital of the subsidiary company may be nominally half-a-million, but be well worth two-and-a-half millions. How do you arrive at the half-a-million?—I buy shares at a premium and the premium may be high.

(Mr. CASH): Putting Sir William McLintock's question in another form: How do you propose, on the illustration you gave, to deal with the difference between the premium price you paid for the shares of the subsidiary and par value at which they appear in the subsidiary company?—I think no steps are necessary at all.

If you consolidate . . . ?—I am not proposing to.

If you consolidate, how do you propose to deal with the point?—It is very simple. In this case it represents the investment in the subsidiary company at £25,000, the capital of which is £15,000, but there may be £5,000 on reserve fund, and so forth; the buildings may have been written down very savagely, and so forth.

(SIR WILLIAM MCLINTOCK): Where the price paid represents the share value in the books *plus* the reserves there is no difficulty. I am not suggesting to you that the consolidated balance-sheet is not a desirable thing to have.—I am quite content with this summary.

I want to know if you agree that before you can consolidate the balance-sheet of a group of subsidiaries, the company which controls these subsidiaries must bring the asset values into line with the price paid for the shares. I suggest to you that unless they do that, either by creating what is proper, a good will value, or if they have paid for them on the basis that their assets were unduly written down, then we must write up its assets in the consolidated balance-sheet?—I do not think it is necessary. Apart from the reserve you estimate that there is a certain good will as well.

In the case of private companies and the question of the auditor being a partner of the firm, that is that neither the firm nor any of the partners should be auditors. If one of the members happens to be a director, are there any exceptions to that really?—There are a great many at present.

There are hundreds of private companies where the interests of the shareholders and the directors are one; I mean the directors own all the shares?—That exists with public companies in Scotland as well as private companies.

I think in public companies the rule is quite a salutary one; but I am suggesting private companies where the directors—it is really a private partnership in effect—where that state of matters exists what is the objection to one partner being a director and the other partner being the auditor, or even the firm, for that matter?—He has to criticise his own partner. Has he the same freedom? It applies in public companies as well as private companies in Scotland.

I suggest to you that the accountants are more likely to be correct where there are two, when one is there to criticise the other, than in the other method which you suggest?—In practice perhaps it may be so, but theoretically, no.

Do you agree with that view?—In actual practice?

Yes.—I do not think I have come across cases of a partner auditor being found remiss.

I am not suggesting that. I want to know if you agree with the view that it is not an undesirable state of affairs to exist?—I think it is expedient that they should be independent persons.

Even in the case of a private company?—If it is a family matter, perhaps one might make an exception there.

(Mr. BRYDEN): I think private companies should be exempt. We had in our view public companies, really.

It is public companies you are referring to?—Yes, I think so when we had it before us.

That is my point, because there are many private companies where the other position exists and works all right?—Yes.

(Mr. MORTIMER): With regard to what Mr. Bryden said just now about sending out all the accounts of subsidiary companies, would it not be absolutely essential in order to afford a true view to give a sort of *resumé* of the method of contracting between the various subsidiary companies and the main company?—(Mr. REID): Is that essential with the same people? It is a question of Paul and Peter. The parent is supposed to have some regard for the children. It cannot benefit them in the end if real losses are concealed.

But, as a matter of fact, if an untrue exalted position is disclosed by a balance-sheet due to trade between the subsidiary companies, is it not generally done in the hope of giving a good appearance to the company? That is the object, presumably; the directors are not dishonest?—There is always a certain amount of window dressing, of course, with big institutions, but there are cases of rascality, no doubt.

With regard to the existence of subsidiary companies?—Yes. Does not it sub-divide the labour?

(Mr. MORTIMER): Yes, probably; and very often because they cannot buy the whole of the shares.

(Mr. BRAND): Historical reasons.

(Mr. MORTIMER): In amalgamations very often you cannot get in all the outstanding shares, and you have to continue the subsidiary company.

(Mr. BRAND): It is the cost of winding them up.

(Mr. MORTIMER): Yes. You have bought the shares gradually and if you transfer them you may have to pay 1 per cent. on all the fixed assets. There are many reasons. Very often you have got contracts; very often you have leases, and very often you hold various patents?—Is not the subsidiary company as likely to be as well managed as the parent company?

Probably. It was suggested that this consolidated balance-sheet would give a true view; that is the only object of it, I understand?—Yes.

(Mr. BRAND): You think it is helpful?—It shows where the assets are in the aggregate, and, after all, the subsidiary companies are themselves an aggregate because they all belong to the parent company.

Supposing a lot of the subsidiary companies are foreign, it might take much longer to prepare a real consolidated balance-sheet than to issue the balance-sheet of the holding company; it might mean many months delay, I suppose?—Yes, you might experience that delay.

(Mr. BRAND): You prefer, if a shareholder of a company, to have a six months delay rather than to receive a balance-sheet of the holding company only?

(Mr. MORTIMER): Mr. Bryden started this discussion on the basis that the position of the subsidiary company ought to be shown. How would you deal in a consolidated balance-sheet with, say, a subsidiary which had been bought for £100,000 but had an unsatisfied judgment of £1,000,000 against it? How would you treat it then? You are one of the expert witnesses who are giving us evidence on this?—(Mr. REID): The result would be that the company would bust if there was a judgment for £1,000,000.

You take it right out?—It would cease to be an asset.

(Mr. BRAND): Do you think the objection against a holding company showing its holding balance-sheet in other subsidiaries is overcome if the rule is followed that all losses of the subsidiary company are brought into account as well as the profits?—(Mr. BRYDEN): Yes.

Is that one of the main objections?—Yes, to see which companies are doing well or otherwise.

(Mr. BRAND): You may get a holding company that brings in the profits of the subsidiary company and not the losses.

(Mr. MORTIMER): Simply dividends declared.

(Mr. BRAND): Before the holding company declares a dividend it should be obligatory to bring in all losses as well as profits?—Yes.

Would that do away with most of the objections?—Yes, that would; but all the same we want the actual assets as well. I think it is very necessary that each subsidiary company should show its result. If there is a business which has 50 branches in England, well, we show what they make in Manchester and everywhere else.

I am thinking of companies with subsidiaries spread all over the world; then perhaps there are much greater difficulties involved?—(Mr. REID): In this case the profits and losses are all combined together. (Mr. BRYDEN): You cannot tell. (Mr. REID): The consolidated balance-sheet shows a credit for depreciation, reserve accounts, and profit and loss accounts all combined, which I think is a mistake.

Auditors and Statutory Obligations.

(The Chairman): In your experience, are there any matters in which it would be desirable to have the hands of auditors strengthened *vis-a-vis* the company; for instance, it has been suggested that pressure is sometimes brought to bear on auditors to omit any reference to such things as unsecured loans to directors, and that sort of thing; and that a weak auditor might find it difficult to resist pressure of that kind. It is suggested that if statutory obligations were imposed in that class of case, an auditor would find that his hands would be very much strengthened. Could you give us the result of your experience with regard to that matter?—I have found it very difficult. There is the usual immunity clause invariably now that directors may trade with the company. They may be large customers and they may have a current account. If these sums were excessive it would be incumbent on the auditor to put it into his report, separate from the certificate, that such matters should be looked into; but it is very difficult for instance, in the case of loans to directors sometimes quite outside the business of the company.

In a case of that kind I apprehend that an auditor, or most auditors, would conceive it their duty to make some remarks in their reports if the item was important enough to deserve attention?—I have done so, and lost my job.

That is rather the kind of thing that I have in mind; whether you have had any experience of cases where it would be desirable to strengthen an auditor's hands. In your particular case you were strong enough, but it may be that a weak auditor, in fear of losing his job, might have omitted a reference to that; whereas if he had been able to point to a statutory obligation the directors would have been bound to submit to it and could not have taken any exception to it?—Could not you give them some remedy for being unjustly dismissed?

I think that is carrying the matter rather far?—The directors generally guide the shareholders.

That opens up various difficulties, but in practice I want to get from you quite the broad position whether you think there should be in certain specific cases some statutory direction to auditors that they were to call attention to certain specific matters, and thus strengthen the hands of a weak auditor *vis-a-vis* the directors?—Would you go back to the old Act of 1862 where officers' balances had to be stated separately? Would you indicate that; would you dare to do so?

I want you to help us from your experience. I want to get evidence from you as to whether your experience leads you to think that there are cases in which some statutory provision of that kind would strengthen the hands of a weak auditor?—I think it would be splendid if you could get it; it would be a great help to auditors.

Does it happen, sometimes, from your experience, that pressure is brought to bear on auditors?—Undoubtedly.

You have given us one instance in your own experience where pressure was brought to bear with regard to large loans to directors. Could you give us any other class of case in which in your experience pressure is exercised? Of course, a strong auditor resists it, as we know, but they are not all strong?—Sometimes there is a difference of opinion as to the value of stock in trade.

With regard to a thing of that kind, of course, it would be difficult to provide for, one can see; but apart from that you have not any suggestions to make as to ways in which auditors' hands might be strengthened?—There are cases, of course, of straining to pay a dividend in which one must exercise a discretion.

Those may be matters of degree; it is difficult to deal with them?—I think it would be very helpful to auditors if it could be enacted that directors' and other officers' balances should be stated separately.

What do you think, Mr. Bryden?—(Mr. BRYDEN): I think so; say over £100, or something like that.

You think it would strengthen the hands of auditors?—Yes.—(Mr. REID): Are you going to call it a loan; would you limit it to a loan or a current account?

That is a matter which we shall have to consider; I only wanted to get the idea from you. I understand it is not the desire of the Chartered Accountants of Scotland to have any such special immunity as is afforded by the indemnity clause in certain forms of Articles?—No.

You do not wish it?—No. We think it strengthens our position and justifies an increase of fee, perhaps.

Can you tell me why it is not desirable to give a company power to make a levy on shareholders?—It is against the principle of limited liability.

Have not you had experience of cases where the absence of such a power has necessitated some expensive reconstruction?—Yes.

If the power existed, assuming it was hedged round by sufficient safeguards, in practice it would enable a company to carry on without going through the expense of an elaborate reconstruction?—I should not propose it, because it would look like failure.

That is really your reason for objecting to it?—And I think it would put an embargo on a sale of shares.

(Mr. CASH): As regards the question of loans to directors and officers you can quite understand if you put these into a statement which is going to be published that it might raise serious objections to stating such loans in perfectly genuine cases?—I quite agree. I know the difficulty there is, for instance, with banks.

(The CHAIRMAN): We are alive to that; we have had evidence about that in the case of banks.

(Mr. CASH): You would agree that it would have to be qualified very considerably?—Yes.

(Mr. STIEBEL): Are you satisfied with the position of funds out of which dividends may be paid—my real point is this: Do you think that dividends ought to be paid when the company has in fact suffered capital losses?—That is a question of prudence, perhaps. The law allows it.

But is it a right state of the law?—I do not think it is right, but the law allows it. You can carry a capital loss to suspense and leave it hanging like Mahomet's coffin.

You do not think it is right?—I do not think it is prudent.

It is not in accordance really with the practice of the best accountants, is it?—Trust companies, for example; but that is a loss of capital which may be more or less temporary: but loss of trade may also be left in suspense. That is to be deprecated.

(Mr. STIEBEL): It is really difficult to find out exactly what the law is.

Reviews.

Income Tax and Super Tax Chart, 1925/1926. *By C. A. Tolley. London: 4, Great Winchester Street, E.C. (Price, with Free State Supplement, 3s. post free.)*

This useful publication has developed into something more than a mere chart and gives a large amount of useful information in easily accessible form. It deals with Income Tax and Super Tax in all its aspects, and is exceedingly useful as a means of obtaining brief information and as a reference to the sections of the Income Tax Statutes, where fuller particulars can be obtained. A supplementary chart deals with the complicated position of the Irish Free State Tax and relief from double taxation in relation thereto. Mr. Tolley also publishes Income Tax Tables showing the working out of the tax payable on various incomes for the year 1925/1926. This is published at 1s. 7d. post free.

Income Tax and Super Tax Law and Cases. *By Ronald Staples, of the Inland Revenue Department. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C. (629 pp. Price 25s.)*

This looks rather a formidable book, but the matter is well compiled and arranged and the whole field of Income Tax is thoroughly dealt with. The work is intended to supply the needs of Accountants, Solicitors and others who require full information on the subject, and in order also to meet the requirements of students the introduction deals at some length with the origin, history and development of the Tax. For convenience, the matter is arranged under subject headings in alphabetical order, but the sections of the various Acts can be readily found by reference to the table of Statutes which sets out the enactments in order of date, with the page on which each section may be found. There is, in addition, a full index to the whole book and a table of cases cited.

Income Taxes in the British Dominions, Supplement No. 4. *London: H.M. Stationery Office, Adastral House, Kingsway, W.C. (40 pp. Price 1s. net.)*

This is the fourth of a series of supplements which are being issued from time to time in relation to the Income Tax Laws of the British Dominions, Colonies and Protectorates. The supplement, as usual, is divided into two parts, the first being a series of additional pages to be added to the book and dealing with taxation in Australia—Northern Territory and Queensland—while the second part consists of additions and corrections intended to be incorporated in the text.

Practical Book-Keeping and Commercial Knowledge. *Fourth Edition. By Ernest E. Spicer, F.C.A., and Ernest C. Pegler, F.C.A. London: H.F.L. (Publishers) Limited, 17, Ironmonger Lane, E.C. (340 pp. Price 7s. 6d. net.)*

This book is already well-known and the present edition has been thoroughly revised. The appendix is now divided into two parts, one dealing with commercial abbreviations and the other with commercial terms and their meanings.

The Secretary's Manual on the Law and Practice of Joint Stock Companies. *Nineteenth Edition. By T. E. Haydon, M.A., K.C., and Sir Gilbert Garnsey, K.B.E., F.C.A. London: Jordan & Sons, Limited, 116, Chancery Lane, W.C. (440 pp. Price 7s. 6d. net.)*

In the production of this edition, Sir Gilbert Garnsey is now associated with Mr. Haydon, and the book has been revised and brought up to date. The chapter dealing with books required by Statute has been partly re-written, and also the chapter on commercial books and book-keeping. A member of the Stock Exchange has revised the portion of the work dealing with Stock Exchange requirements in respect of applications for an Official Quotation, &c., so as to ensure that this shall be entirely reliable. The scope of the work is so well known that it is unnecessary for us to discuss it in detail.

Double Income Tax Relief. *By H. E. Seed, Incorporated Accountant, and A. W. Rawlinson, A.C.A. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (112 pp. Price 10s. 6d. net.)*

The authors, in the first instance, deal with this difficult subject in a general way and then explain the practice (*a*) as applied to individuals, and (*b*) as applied to companies. The concluding portion of the work is devoted to an explanation of the effect upon income tax of the establishment of the Irish Free State, and the tax complications which have arisen in consequence. As Mr. Rawlinson was formerly in the Inland Revenue Department, his knowledge of the subject in its practical aspect should be valuable.

The Law and Practice of Arbitration in South Africa. *By Thos. Winship, F.S.A.A. Durban: E.P. and Commercial Printing Company. (54 pp.)*

The matter contained in this book is the substance of several lectures which were delivered by the author on the subject of Arbitration, with some important legal decisions which have been given since the lectures were delivered incorporated in the text. Mr. Winship states that he has looked up every case in the four Provinces covering a period of 50 years, but has only cited the leading cases on each particular part of the subject so as not to unduly burden the book. It is evident, therefore, that a great deal of pains has been taken in order to ensure that the information given is entirely reliable. The matter is treated under a number of headings, including the appointment of the arbitrator, his powers and qualifications, the appointment of the umpire, the making of the award, &c., and altogether the publication provides a very complete handbook.

The "Financial Times" Income Tax Guide. *Revised by G. H. Bridge, A.S.A.A. London: The Financial Times, Limited, 72, Coleman Street, E.C. (48 pp. Price 1s. net.)*

This is a useful little pamphlet on the subject of Income Tax, Super Tax and Corporation Profits Tax. The information given is necessarily brief, but deals with many of the points which cause trouble to the ordinary taxpayer in filling up his returns. The matters dealt with include the rules relating to the assessment of earned and unearned income, personal allowances, settlements and endowments, life assurance premiums, pensions and gratuities, &c. There is also a chapter on relief and how to obtain it.

DEPRECIATION RATES FOR INCOME TAX.

The following is supplementary to the Schedules published in our issues of December 1921, April 1923, and March and November 1924. The rates of depreciation given below have been agreed by the Board of Inland Revenue with the Scottish Association of Master Bakers subject to the concurrence of the Income Tax Commissioners:—

Industry.	Rate per cent.	Prime Cost or Written-down Value.	Nature of Plant.
Bakers..	6	Written-down value.	Plant and machinery generally (excluding brick, stone or other non-metal parts of the structure of ovens).

Notes.—(1) All additions to and replacements of plant and machinery to be charged to capital provided that all repairs and all renewals and replacements of parts which do not destroy the identity of the machine are to be allowed as a revenue charge.

(2) No allowance for wear and tear to be made in respect of the brick, stone or other non-metal parts of the structure of ovens, but in lieu thereof, the cost of repairs and replacements and rebuilding to be allowed as a charge against revenue as and when incurred, provided that the cost of additional ovens and of all extensions to and enlargements of existing ovens shall be treated as a capital charge.

(3) The arrangement to have effect for the year 1924-25 and subsequent years.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Valuation Rolls Cost.

The Second Division of the Court of Session had before it recently a special case, as a test, in which the County Council of the County of Stirling were the first parties, and the Corporation of the City of Glasgow, the London, Midland and Scottish Railway Company, and the London and North Eastern Railway Company were the other parties. The question was whether the expenses incurred annually by a local authority in making up the valuation roll fall to be paid by all the proprietors or fall to be paid by the proprietors and occupiers within the area, excluding railway and canal companies.

The Lands Valuation Act, 1854, provided for the making up of the valuation roll annually in every county and burgh in Scotland, and the appointment of assessors. Sect. 3 excluded the lands or heritages of railway and canal companies from valuation by the assessor, and gave gas and water companies the power to elect to have their undertakings also excluded. The lands or heritages of the railway and canal companies and of the gas and water companies so electing, as Glasgow Corporation had done, were to be valued by an assessor of railways and canals. The County Council sought to collect the cost of making up the roll along with and as part and by way of addition to the county general assessment which they laid upon the other parties to the special case, maintaining that they were liable. These other parties contended that the County Council were not entitled to assess them for any part of the cost of making up or printing the valuation roll. Their lands and heritages were excluded from such valuation, and the cost of valuing these had been paid by themselves.

The Court answered the question to the effect that the other parties were not liable to pay the proportion of the county general assessment charged against them applicable to the cost of making up the valuation roll for the county.

The Lord Justice-Clerk said they were informed that the decision of this case would settle an important question of valuation law which affected every county and burgh in Scotland, and in regard to which practice had hitherto varied. The answer to the question depended largely, if not entirely, on the construction of sect. 18 of the Act of 1854. The burden imposed by that section was laid only on those persons whose land was valued by the county assessor. In other words, just as the jurisdiction of the county assessor and the jurisdiction of the assessor of railways and canals was separate and distinct, so too the cost of explicating that jurisdiction was separate and distinct. In his Lordship's judgment that view, which was undoubtedly equitable, was not only warranted but was concluded by the provisions of the statute. He was therefore of opinion that, whether regard were had to the provisions of sect. 18 of the Act of 1854 or to the provisions of the Acts of 1869 and 1889, the other parties were not clearly subjected to liability for the whole cost of making up the county valuation roll, but that their liability was limited to the cost incurred by the railway and canal assessor in making up the entries in the valuation roll which referred to their own property.

The same question, in a slightly different form, was raised by the County of Dumbarton. The features of this case were that a special assessment was levied to defray the cost of making up the roll and that the assessor was an officer of the Inland Revenue.

The Court answered the question in like manner, deciding that the railway and other parties were not liable for any part of the cost of making up the valuation roll.

Scottish Lady's German Will.

Lord Ashmore pronounced judgment in an action of multiplepoinding by an Edinburgh accountant, as judicial factor on the trust estate created by an ante-nuptial trust settlement executed by an Edinburgh lady who became the wife of a German banker of Dusseldorf. The action was directed against the Controller of the Clearing House (Enemy Debts), London, and against the lady's husband. The question raised was as to the true meaning of a German will,

by the wife. One of the purposes of the trust deed was that in the event of the wife's death, without issue, the trustees should pay her husband the income for his liferent use. The lady died in 1917, and left a will, written in German nine days after her marriage in 1910, signed by herself, to the effect: "In the event of my death without leaving issue I appoint my husband as heir-general."

The husband claimed not only the income of the trust estate for his liferent alimentary use, but also the fee or capital of the estate. The judicial factor claimed the whole funds as belonging to the trust estate, and which fell to be disposed of in terms of that deed.

The Comptroller maintained that under the Treaty of Peace and in respect that both the parties to the marriage were, in law, German nationals, all the property in this country belonging to the wife, and acquired by the husband under her will, fell to be made over to the Comptroller to be administered.

Lord Ashmore sustained, in the course of a long opinion, the claim of the judicial factor and ranked and preferred him to the whole fund *in medio*, but always in trust to be administered in terms of the ante-nuptial trust settlement of the deceased wife.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases* (*Scotland*); S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B.& C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; P., President of Probate, Divorce and Admiralty.]

BANKRUPTCY.

Re Lister.

Disclaimer of Onerous Property.

A trustee in bankruptcy who goes into possession of onerous property which he afterwards disclaims, gets rid of liability to pay the rates on the property during the period of his occupation.

(K.B.; (1925) 69 S.J., 711.)

COMPANY LAW.

Leman v. Austin Friars Investment Trust.

Inspection of Register of Debentures.

Holders of income stock certificates in a trust company, such stock with a charge on its profits for repayment being of the nature of debentures not shares, are entitled to inspect the company's register in order to ascertain the names of their fellow stock holders, under sect. 102 of the Companies Act, 1908.

(Ch.; (1925) 69 S.J., 711. Affirmed by C.A.; (1925) 69 S.J., 762.)

REVENUE.

Martin v. Lowry.

The appellant bought a gigantic consignment of linen and set to work to make people buy it, and he succeeded in selling it within a year by organising a vast activity for that purpose. He was assessed to income tax under Schedule D on his profits on the sale of the linen, and on appeal to the Special Commissioners he contended that he did not carry on any trade in connection with linen, that the transaction was a gamble, and that the profit was not an annual profit chargeable to income tax. The Special Commissioners held that in exercising these activities the appellant was for the time being carrying on a trade the profits of which were chargeable to income tax.

Rowlatt (J.) held that there was evidence on which the Special Commissioners could find the transaction to be in the nature of a trade, and that the fact of the profits being the income of a trade and belonging to the year of assessment was enough to make the profits "annual" within Case VI of Schedule D, and the decision of the Special Commissioners must be affirmed.

(K.B.; (1925) 41 T.L.R., 574.)

Wigmore v. Sumerson & Sons, Limited. Inland Revenue Commissioners v. Oakley.

Where securities are sold with interest rights, the purchaser, and not the seller, is liable to pay income tax and super tax on the interest in respect of the period between the last payment of interest and the date of the sale.

(K.B.; (1925) 41 T.L.R., 568.)

Betts v. Clare & Heyworth and Clare & Heyworth, Limited.

Business set up within less than Three Years before Assessment.

The respondent firm began a new business on March 1st, 1919, and made up their first account on December 31st, 1919. As from January 1st, 1920, they sold the business to the respondent company, which decided to make up its accounts to March 31st in each year, and accordingly made up an account for the three months ending March 31st, 1920. It was agreed that the assessment to income tax, Schedule D, for the year ending April 5th, 1920, ought to be apportioned between the firm and the company.

It was held that under Rule 1 (2) of the rules applicable to Cases I and II of Schedule D, the liability to income tax for the year ending April 5th, 1920, should be based on the account for the period of ten months to December 31st, 1919, without regard to the account for the period of three months to March 31st, 1920, inasmuch as, a three years average not being applicable, the average required must be taken over the period antecedent to the year of assessment.

(K.B.; (1925) 41 T.L.R., 561.)

Scales v. Atalanta Steamship Company of Copenhagen (in the Name of Andorsen Becker & Co., Limited).

Receipt of Interest on behalf of Foreign Company and its Assessment in Name of Agents.

A Danish company with offices in Copenhagen instructed the respondents, who were shipbrokers in London, to collect the insurance money payable for losses incurred by the torpedoing of two steamers belonging to the company. The respondents accordingly collected the money, and on behalf of their principals placed it on deposit in a London bank at interest, which was credited by the bank to the respondents. The Danish company was assessed, in the name of the respondents, to income tax on this interest, and the respondents appealed to the General Commissioners on the ground that they had acted merely as brokers in the transaction, and that Rule 10 of the rules applicable to all the schedules in the Income Tax Act, 1918, prevented the Danish company from being assessable in the name of the respondents. The General Commissioners discharged the assessments.

It was held by Rowlatt (J.) that as the respondents received the interest as agents on behalf of the foreign company the decision of the General Commissioners was wrong, and the assessments must be restored.

(K.B.; (1925) 41 T.L.R., 591.)

Attorney-General v. Howe.

Estate Duty and Aggregation.

Sect. 4 of the Finance Act, 1894, enacts: "For determining the rate of estate duty to be paid on any property passing on the death of the deceased, all property so passing in respect of which estate duty is leviable shall be aggregated so as to form one estate, and the duty shall be levied at the proper graduated rate on the principal value thereof." By sect. 12 the Commissioners in their discretion may, in consideration of a sum presently paid, commute the estate duty which will or may become payable upon the determination of an interest in property, upon the application of the person entitled to the interest in expectancy.

The Court of Appeal affirmed the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, July, at p. 278) and held that where estate duty has been commuted under sect. 12, the property in respect of which the commutation has been made is not property on which "estate duty is leviable" within sect. 4, and is not to be aggregated with other property of the same person on which estate duty is leviable.

(C.A.; (1925) 41 T.L.R., 610.)

Commissioners of Inland Revenue v. Ryde Pier Company.

Exemption from Corporation Profits Tax of Tramway Undertaking.

Rowlatt (J.) held that the Ryde Pier Company, which worked a tramway along the pier, but which had other receipts besides those from the tramway, was within the proviso to sect. 52 (2) of the Finance Act, 1920, carrying on a tramway undertaking subject to statutory restrictions as to rates of charge, and was therefore exempt from corporation profits tax.

(K.B.; (1925) 41 T.L.R., 622.)

Grainger v. Maxwell's Executors.

No Income from Particular Source during Year of Assessment.

For the year ended April 5th, 1920, M. held certain Exchequer bonds and received income therefrom. In February, 1920, they were redeemed and no interest was thereafter received from them. For the year ended April 5th, 1921, an assessment was made which included a sum of £300 interest from Exchequer bonds.

It was held by Rowlatt (J.) that liability to assessment to income tax under Case III of Schedule D depended on there being in the year of assessment profits of the kind assessed, and as no income had been received from the year of the assessment, the assessment was properly reduced by £300.

(K.B.; (1925) 159 L.T.N., 533.)

Inland Revenue Commissioners v. Parsons.

Dividends on Shares set aside for Employees.

Rowlatt (J.) held that where an employer had entered into an arrangement by which certain of his employees were to receive shares in the business when the receipt of the dividends on the shares added up to the par value of the shares, and that until such time the employer was to be the absolute owner of the shares and to receive the dividends, he was liable to pay super tax on those dividends.

(K.B.; (1925) 69 S.J., 663.)

Barson v. Airey.

Remuneration of Director of Company Employed Abroad.

Appellant was chairman of directors from 1916 to 1922, and as such received £600 a year under the Articles of Association. During these years he went to China on behalf of the company for extended periods of time, and in 1920 an additional remuneration was made to him of £2,000 a year in respect of his services in China. Appellant contended the sum of £2,000 a year was voted to him in respect of services performed wholly in China and that such remuneration did not come within Rule 6 of Schedule E of the Income Tax Act, 1918.

It was held by Rowlatt (J.) that the appellant could not have been compelled to go abroad and while he was in China he was still a director of the company and his remuneration was assessable under Schedule E as profits of his office as a director.

(K.B.; (1925) 159 L.T.N., 534.)

Trustees of Brennan Minors v. Scanlan.

Direct Assessment.

By sect. 59 (1) and (4) of the Taxes Management Act, 1880, "upon the determination of any appeal under the Income Tax Acts by the General Commissioners, the appellant or the surveyor may, if dissatisfied with the determination require the Commissioners to state a case. In the event of the assessment being altered by the order or the judgment of the High Court the difference in amount, if too much has been paid, shall be repaid with interest (if any) as the Court may allow and shall be paid and recovered accordingly."

The trustees of certain minors applied to have interest allowed on moneys which had been deducted as income tax from dividends, which moneys had been paid to the Revenue Authorities, and which were held to be recoverable on the ground that the dividends were the income of the minors and not of the settlor who had created the trust, and that the incomes of the minors were not large enough to be taxable.

Rowlatt (J.) held that sect. 59 (4) of the Act of 1880 only applied where a direct assessment had been made, that this was not so in the present case, and that there was, therefore, no jurisdiction to allow interest.

(K.B.; (1925) 41 T.L.R., 452.)

Bird v. Commissioners of Inland Revenue.

Meaning of "Voluntary Disposition."

The Finance Act, 1922, sect. 36, provides that where the interest of a partner in a business passes by a voluntary disposition *inter vivos* made by the partner to a lineal descendant, the descendant shall, for the purposes of sect. 38 (3) of the Finance (No. 2) Act, 1915 (which allows repayment of excess profits duty in case of a deficiency or loss), be treated as if he were the partner.

It was held that "voluntary disposition" as used in sect. 36 means a disposition without adequate consideration, but that the facts stated did not show that the contract in question was a disposition without adequate consideration, and the claim was dismissed.

(C.S.; (1925) S.C., 186.)

Cooper v. Stubbs.
Commissioners of Inland Revenue v. Roberts.
Rolls-Royce, Limited, v. Short.

Affirmations of Decisions.

The Court of Appeal affirmed three decisions of Rowlatt (J.) in the above cases.

In *Cooper* v. *Stubbs* (see *Incorporated Accountants' Journal*, July, at p. 278) Rowlatt (J.) held that profits made by a member of a firm of cotton brokers, who independently of the business of his firm had speculated in "futures," were in the nature of profits or gains so as to be assessable to income tax under the Income Tax Act, 1918, Schedule D, Cases 1 and 6.

(C.A.; (1925) 69 S.J., 710.)

In *Rolls-Royce, Limited*, v. *Short*, Rowlatt (J.) held that as no tax was paid or payable on the Indian profits, application for relief ought to be refused (see *Incorporated Accountants' Journal*, May, at p. 222).

(C.A.; (1925) *The Times*, July 3rd, 1925.)

In *Commissioners of Inland Revenue* v. *Roberts*, in dismissing the appeal, Atkin (L.J.) held that it was as plain a case of trying to tax the public twice over as one could expect to find (see *Incorporated Accountants' Journal*, May, at p. 222).

(C.A.; (1925) *The Times*, July 8th, 1925.)

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